



Dave Yost • Auditor of State

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Hancock County Educational Service Center
Hancock County
7746 County Road 140, Suite A
Findlay, Ohio 45840-1978

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio (the Center), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio, as of June 30, 2016 and 2015, and the respective changes in financial position thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2017, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Dave Yost
Auditor of State

Columbus, Ohio

May 24, 2017

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**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

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

Highlights

Highlights for fiscal year 2016 are as follows:

Net position increased \$296,269, or less than 3 percent.

Program specific revenues, in the form of charges for services and operating grants, accounted for \$6,850,205, or 99 percent of total revenues.

Using the Basic Financial Statements

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Hancock County Educational Service Center, the General Fund is the most significant fund.

Reporting the Educational Service Center as a Whole

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

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

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities, including instruction, support services, non-instructional services, and extracurricular activities.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
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UNAUDITED
(Continued)**

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major fund is the General Fund.

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

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

The Educational Service Center as a Whole

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

Table 1
Net Position

	Governmental Activities		Change
	2016	2015	
<u>Assets</u>			
Current and Other Assets	\$1,542,825	\$1,458,439	\$84,386
Capital Assets, Net	25,748	30,421	(4,673)
Total Assets	1,568,573	1,488,860	79,713
<u>Deferred Outflows of Resources</u>			
Pension	1,135,234	727,136	408,098

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

	Governmental Activities		Change
	2016	2015	
<u>Liabilities</u>			
Current and Other Liabilities	\$779,657	\$751,082	(\$28,575)
Long-Term Liabilities			
Pension	11,044,417	10,544,931	(499,486)
Other Amounts	402,106	350,606	(51,500)
Total Liabilities	<u>12,226,180</u>	<u>11,646,619</u>	<u>(579,561)</u>
<u>Deferred Inflows of Resources</u>			
Pension	<u>1,503,720</u>	<u>1,891,739</u>	<u>388,019</u>
<u>Net Position</u>			
Net Investment in Capital Assets	25,748	30,421	(4,673)
Restricted	5,874	47,259	(41,385)
Unrestricted (Deficit)	<u>(11,057,715)</u>	<u>(11,400,042)</u>	<u>342,327</u>
Total Net Position (Deficit)	<u>(\$11,026,093)</u>	<u>(\$11,322,362)</u>	<u>\$296,269</u>

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

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present

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HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB Statement No. 68, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

Aside from pension related activity, there were few changes of significance noted in the above table. The increase in current and other assets was primarily due to a modest increase in cash and cash equivalents and intergovernmental receivables. The increase in other long-term liabilities is related to an increase in the liability for compensated absences which is based on the number of employees meeting eligible criteria.

Table 2 reflects the change in net position for fiscal year 2016 and fiscal year 2015.

Table 2
Change in Net Position

	Governmental Activities		Change
	2016	2015	
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$6,407,128	\$6,209,699	\$197,429
Operating Grants and Contributions	443,077	434,065	9,012

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

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Total Program Revenues	6,850,205	6,643,764	206,441
General Revenues			
Grants and Entitlements	426	171	255
Interest	6,296	3,106	3,190
Miscellaneous	56,499	44,623	11,876
Total General Revenues	63,221	47,900	15,321
Total Revenues	6,913,426	6,691,664	221,762
<u>Expenses:</u>			
Instruction:			
Regular	143,426	123,482	(19,944)
Special	2,591,496	2,508,176	(83,320)
Support Services:			
Pupils	1,490,835	1,528,257	37,422
Instructional Staff	928,581	914,972	(13,609)
Board of Education	60,247	36,588	(23,659)
Administration	992,577	697,521	(295,056)
Fiscal	275,309	280,218	4,909
Operation and Maintenance of Plant	107,629	92,005	(15,624)
Pupil Transportation	2,322	29,195	26,873
Central	21,192	16,832	(4,360)
Non-Instructional Services	1,543	1,632	89
Extracurricular Activities	2,000	2,340	340
Total Expenses	6,617,157	6,231,218	(385,939)
Increase in Net Position	296,269	460,446	(164,177)
Net Position (Deficit) at Beginning of Year	(11,322,362)	(11,782,808)	460,446
Net Position (Deficit) at End of Year	(\$11,026,093)	(\$11,322,362)	\$296,269

Program revenues were 99 percent of total revenues for fiscal year 2016 (the same as the prior year) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 93 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to eight local school districts and one city school district in Northwest Ohio. The increase in total revenues from the prior fiscal year is primarily due to an increase in the charges to local school districts (which fluctuate annually based on services requested by the supported school districts and grant funding).

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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Expenses related to the services charged to school districts are a large portion of the Educational Service Center's budget and dependent on the level of services requested by those school districts which vary from year to year. Overall expenses increased approximately 6 percent from the prior fiscal year.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction:				
Regular	\$143,426	\$123,482	(\$1,025,842)	(\$1,127,634)
Special	2,591,496	2,508,176	(2,840,042)	(2,614,984)
Support Services:				
Pupils	1,490,835	1,528,257	1,490,835	1,528,257
Instructional Staff	928,581	914,972	928,581	914,972
Board of Education	60,247	36,588	60,247	36,588
Administration	992,577	697,521	758,607	443,963
Fiscal	275,309	280,218	275,309	280,218
Operation and Maintenance of Plant	107,629	92,005	107,629	92,005
Pupil Transportation	2,322	29,195	(9,240)	17,170
Central	21,192	16,832	21,192	16,832
Non-Instructional Services	1,543	1,632	(2,324)	(2,273)
Extracurricular Activities	2,000	2,340	2,000	2,340
Total Expenses	<u>\$6,617,157</u>	<u>\$6,231,218</u>	<u>(\$233,048)</u>	<u>(\$412,546)</u>

As indicated previously, a significant portion of the Educational Service Center's program costs are provided for through program revenues, that being charges for programs provided by the Educational Service Center to school districts served by the Educational Service Center and from various grant resources.

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be quite under funded. Some expenses within the pupils support

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance increased 15 percent for the General Fund. There was a modest 3 percent increase in revenues and expenditures increased 5 percent. Revenues exceeded expenditures resulting in the increase.

Capital Assets

At June 30, 2016, the Educational Service Center had \$25,748 invested in capital assets (net of accumulated depreciation). Additions and disposals were minimal. For further information regarding the Educational Service Center's capital assets, refer to Note 7 to the basic financial statements.

Current Issues

State foundation revenues are expected to decrease slightly; or, at best, stay the same for fiscal year 2017. The State funding calculation is changing from \$27 per pupil and a proration factor to \$25 per pupil and no proration factor. Educational service center who prove they are a high performing educational service center will be able to get back the \$27 per pupil. Currently, this has been achieved by the Hancock County Educational Service Center and it is expected to receive the \$27 per student. This will help minimize any decrease for the current fiscal year. The State still has the ability to "prorate to stay within the appropriations", and this factor will be monitored as we proceed throughout the fiscal year. Service contract revenue is expected to moderately increase due to the anticipation of school districts needing to maintain services and potentially increase some services. Grant funding is expected to stay the same or decrease minimally.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Greg Spiess, Hancock County Educational Service Center, 7746 County Road 140 Findlay, Ohio 45840-1978.

Hancock County Educational Service Center
Statement of Net Position
June 30, 2016

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,422,526
Accounts Receivable	50
Accrued Interest Receivable	41
Intergovernmental Receivable	112,751
Prepaid Items	7,457
Depreciable Capital Assets, Net	25,748
Total Assets	1,568,573
 <u>Deferred Outflows of Resources:</u>	
Pension	1,135,234
 <u>Liabilities:</u>	
Accounts Payable	13,162
Accrued Wages and Benefits Payable	605,126
Intergovernmental Payable	161,369
Long-Term Liabilities:	
Due Within One Year	32,864
Due in More Than One Year	
Net Pension Liability	11,044,417
Other Amounts Due in More Than One Year	369,242
Total Liabilities	12,226,180
 <u>Deferred Inflows of Resources:</u>	
Pension	1,503,720
 <u>Net Position:</u>	
Net Investment in Capital Assets	25,748
Restricted For:	
Other Purposes	5,874
Unrestricted (Deficit)	(11,057,715)
Total Net Position (Deficit)	(\$11,026,093)

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2016

	Program Revenues		Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$143,426	\$1,106,865	\$62,403	\$1,025,842
Special	2,591,496	5,050,864	380,674	2,840,042
Adult/Continuing	0	0	0	0
Support Services:				
Pupils	1,490,835	0	0	(1,490,835)
Instructional Staff	928,581	0	0	(928,581)
Board of Education	60,247	0	0	(60,247)
Administration	992,577	233,970	0	(758,607)
Fiscal	275,309	0	0	(275,309)
Operation and Maintenance of Plant	107,629	0	0	(107,629)
Pupil Transportation	2,322	11,562	0	9,240
Central	21,192	0	0	(21,192)
Non-Instructional Services	1,543	3,867	0	2,324
Extracurricular Activities	2,000	0	0	(2,000)
Total Governmental Activities	<u>\$6,617,157</u>	<u>\$6,407,128</u>	<u>\$443,077</u>	<u>233,048</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	426
Interest	6,296
Miscellaneous	56,499
Total General Revenues	<u>63,221</u>
Change in Net Position	296,269
Net Position (Deficit) at Beginning of Year	(11,322,362)
Net Position (Deficit) at End of Year	<u><u>(\$11,026,093)</u></u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,405,050	\$16,463	\$1,421,513
Accounts Receivable	50	0	50
Accrued Interest Receivable	41	0	41
Intergovernmental Receivable	109,507	3,244	112,751
Prepaid Items	7,425	32	7,457
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	1,013	0	1,013
Total Assets	<u>\$1,523,086</u>	<u>\$19,739</u>	<u>\$1,542,825</u>
<u>Liabilities</u>			
Accounts Payable	\$7,312	\$5,850	\$13,162
Accrued Wages and Benefits Payable	598,183	6,943	605,126
Intergovernmental Payable	160,297	1,072	161,369
Total Liabilities	<u>765,792</u>	<u>13,865</u>	<u>779,657</u>
<u>Fund Balances:</u>			
Nonspendable	8,438	32	8,470
Restricted	0	5,842	5,842
Assigned	32,644	0	32,644
Unassigned	716,212	0	716,212
Total Fund Balances	<u>757,294</u>	<u>5,874</u>	<u>763,168</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$1,523,086</u>	<u>\$19,739</u>	<u>\$1,542,825</u>

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Fund Balances	\$763,168
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Amounts reported for governmental activities on the statement of net position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,748
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Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(402,106)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.

Deferred Outflows	1,135,234	
Deferred Inflows	(1,503,720)	
Net Pension Liability	<u>(11,044,417)</u>	<u>(11,412,903)</u>

Net Position of Governmental Activities	<u><u>(\$11,026,093)</u></u>
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See Accompanying Notes to the Basic Financial Statements

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

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$326,068	\$62,403	\$388,471
Interest	6,296	0	6,296
Tuition and Fees	3,156,989	0	3,156,989
Customer Services	3,250,139	0	3,250,139
Gifts and Donations	0	55,032	55,032
Miscellaneous	56,499	0	56,499
Total Revenues	<u>6,795,991</u>	<u>117,435</u>	<u>6,913,426</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	112,111	33,804	145,915
Special	2,608,171	81,928	2,690,099
Support Services:			
Pupils	1,585,062	0	1,585,062
Instructional Staff	916,979	38,688	955,667
Board of Education	60,196	0	60,196
Administration	1,026,572	800	1,027,372
Fiscal	260,496	0	260,496
Operation and Maintenance of Plant	106,486	0	106,486
Pupil Transportation	2,322	0	2,322
Central	16,926	3,600	20,526
Non-Instructional Services	1,488	0	1,488
Extracurricular Activities	1,986	0	1,986
Total Expenditures	<u>6,698,795</u>	<u>158,820</u>	<u>6,857,615</u>
Changes in Fund Balances	97,196	(41,385)	55,811
Fund Balances at Beginning of Year	660,098	47,259	707,357
Fund Balances at End of Year	<u>\$757,294</u>	<u>\$5,874</u>	<u>\$763,168</u>

See Accompanying Notes to the Basic Financial Statements

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

Changes in Fund Balances - Total Governmental Funds		\$55,811
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year.</p>		
Capital Outlay - Depreciable Capital Assets	1,750	
Depreciation	<u>(6,423)</u>	(4,673)
<p>Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		(51,500)
<p>Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities.</p>		
		(367,633)
<p>Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows, or a reduction in the net pension liability.</p>		
		<u>664,264</u>
Change in Net Position of Governmental Activities		<u><u>\$296,269</u></u>
<p>See Accompanying Notes to the Basic Financial Statements</p>		

Hancock County Educational Service Center
Statement of Fiduciary Net Position
Agency Funds
June 30, 2016

<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$7,375</u></u>
<u>Liabilities:</u>	
Undistributed Assets	\$5,622
Due to Students	<u>1,753</u>
Total Liabilities	<u><u>\$7,375</u></u>

See Accompanying Notes to the Basic Financial Statements

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

Note 1 - Reporting Entity

The Hancock County Educational Service Center (the "Educational Service Center") is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Riverdale, Van Buren, and Vanlue Local School Districts and the Findlay City School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has eighteen administrators, sixty-six classified employees, and seventy certified teaching personnel that provide services to the local and city school districts.

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

General Fund - The General Fund is used to account for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Fiduciary Funds

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

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means the resources will be collected within the current fiscal year or are expected to be

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 10 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 10 to the basic financial statements.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

E. Cash and Investments

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

During fiscal year 2016, investments consisted of negotiable certificates of deposit and STAR Ohio. Negotiable certificates of deposit are reported at fair value. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on June 30, 2016.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2016 was \$6,296, which includes \$256 assigned from other Educational Service Center funds.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

G. Capital Assets

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

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

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

<u>Description</u>	<u>Useful Lives</u>
Buildings and Building Improvements	25 years
Furniture, Fixtures, and Equipment	5-15 years

H. Compensated Absences

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

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

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

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

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Net Position

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

K. Fund Balance

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

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

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

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

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

the Board of Education. The Board of Education has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

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

L. Pensions

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

M. Estimates

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

N. Prepaid Items

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

Note 3 - Change in Accounting Principles

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

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

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

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HANCOCK COUNTY**

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

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

Note 4 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio and, with certain limitations, bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

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

Investments

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

	Fair Value	Maturity
Negotiable Certificates of Deposit	\$101,366	02/19/19
STAR Ohio	947,907	49 days average

The negotiable certificates of deposit are covered by FDIC insurance. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Negotiable certificates of deposit make up 10 percent of the Educational Service Center's total portfolio.

Note 5 - State Funding

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

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

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

Note 6 - Receivables

Receivables at June 30, 2016, included accounts, accrued interest, and intergovernmental receivables. All receivables are considered collectible in full and within one year due to the stable condition of State

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Various School Districts	\$109,507
Other Governmental Funds	
Miscellaneous State Grants	3,244
Total Intergovernmental Receivables	\$112,751

Note 7 - Capital Assets

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

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$61,711	\$0	\$0	\$61,711
Furniture, Fixtures, and Equipment	172,338	1,750	(17,523)	156,565
Total Depreciable Capital Assets	234,049	1,750	(17,523)	218,276
Less Accumulated Depreciation				
Buildings and Building Improvements	(47,533)	(995)	0	(48,528)
Furniture, Fixtures, and Equipment	(156,095)	(5,428)	17,523	(144,000)
Total Accumulated Depreciation	(203,628)	(6,423)	17,523	(192,528)
Governmental Activities Capital Assets, Net	\$30,421	(\$4,673)	\$0	\$25,748

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$995
Special	4,000
Support Services:	
Pupils	261
Instructional Staff	118
Administration	657
Fiscal	392
Total Depreciation Expense	\$6,423

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Note 8 - Risk Management

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

Coverage provided by the Schools of Ohio Risk Sharing Authority	
General Liability	
Per Occurrence	\$15,000,000
Total per Year	17,000,000
Auto Liability	15,000,000
Commercial Property	200,100,000

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

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

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Educational Service Center pays monthly premiums to the Fund for employee medical, dental, and vision insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

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

Note 9 - Contractual Commitments

At fiscal year end, the General Fund had \$34,318 of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2017.

Note 10 - 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

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employees, of salaries and benefits for employee services. Pensions are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that have already occurred.

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows.

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

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Benefits	credit; Age 55 with 25 years of service credit	credit; Age 60 with 25 years of service credit
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* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

The Educational Service Center's contractually required contribution to SERS was \$197,479 for fiscal year 2016. Of this amount, \$32,443 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

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

The Educational Service Center's contractually required contribution to STRS was \$466,785 for fiscal year 2016. Of this amount, \$94,557 is reported as an intergovernmental payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.05145300%	0.03264718%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.05281740%</u>	<u>0.02905736%</u>	

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Change in Proportionate Share	(0.0013644%)	0.00358982%	
Proportionate Share of the Net Pension Liability	\$3,013,812	\$8,030,605	\$11,044,417
Pension Expense	\$209,035	\$158,598	\$367,633

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	\$48,528	\$366,094	\$414,622
Changes in Proportionate Share and Difference			
Between Educational Service Center Contributions and Proportionate Share of Contributions	56,348	0	56,348
Educational Service Center Contributions Subsequent to the Measurement Date	197,479	466,785	664,264
Total Deferred Outflows of Resources	\$302,355	\$832,879	\$1,135,234
Deferred Inflows of Resources			
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$99,857	\$577,553	\$677,410
Changes in Proportionate Share and Difference			
Between Educational Service Center Contributions and Proportionate Share of Contributions	0	826,310	826,310
Total Deferred Inflows of Resources	\$99,857	\$1,403,863	\$1,503,720

\$664,264 reported as deferred outflows of resources related to pension resulting from Education Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2017	(\$18,261)	(\$336,913)	(\$355,174)
2018	(18,261)	(336,913)	(355,174)
2019	(18,491)	(336,913)	(355,404)
2020	60,032	(27,030)	33,002
Total	\$5,019	(\$1,037,769)	(\$1,032,750)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67 as part of the annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality,

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disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications as actual results are compared with past expectations and new estimates are made about the future.

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,179,074	\$3,013,812	\$2,032,565

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

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$11,155,115	\$8,030,605	\$5,388,365

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2016, four of the

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Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2016, no allocation of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2016, this amount was \$23,000. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2016, the Educational Service Center's surcharge obligation was \$23,257.

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 was \$0, \$12,737, and \$1,961, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by

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STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2016, and June 30, 2015, STRS did not allocate any employer contributions to postemployment health care. For the fiscal year ended June 30, 2014, 1 percent of covered payroll was allocated to postemployment health care. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2016, 2015, and 2014 were \$0, \$0, and \$33,840 respectively. The full amount has been contributed for all three fiscal years.

Note 12 - Other Employee Benefits

A. Compensated Absences

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

Classified and certified employees and administrators earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty-five days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of thirty days. After the thirty-day maximum is achieved, employees are paid one additional day for each year of service with the Educational Service Center, up to a total maximum of forty-eight days. An employee's severance pay is pro-rated if they have not served five years with the Educational Service Center.

B. Health Care Benefits

The Educational Service Center provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The Educational Service Center also offers life insurance to all employees through the Ohio Schools Council Association Life Insurance Company.

Note 13 - Long-Term Obligations

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

	Balance at 6/30/15	Additions	Reductions	Balance at 6/30/16	Amounts Due Within One Year
Governmental Activities					
Net Pension Liability					
SERS	\$2,604,007	\$409,805	\$0	\$3,013,812	\$0
STRS	7,940,924	89,681	0	8,030,605	0
Total Net Pension Liability	10,544,931	499,486	0	11,044,417	0
Compensated Absences	350,606	79,943	28,443	402,106	32,864
Total Governmental Activities	\$10,895,537	\$579,429	\$28,443	\$11,446,523	\$32,864

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The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 10 to the basic financial statements.

Compensated absences will be paid from the General Fund.

Note 14 - Fund Balance

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

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Prepaid Items	\$7,425	\$32	\$7,457
Unclaimed Monies	1,013	0	1,013
Total Nonspendable:	8,438	32	8,470
Restricted for:			
Regular Instruction	0	31	31
Special Instruction	0	5,811	5,811
Total Restricted:	0	5,842	5,842
Assigned for:			
Educational Activities	1,990	0	1,990
Non-Instructional Services	3,044	0	3,044
Unpaid Obligations	27,610	0	27,610
Total Assigned	32,644	0	32,644
Unassigned	716,212	0	716,212
Total Fund Balance	\$757,294	\$5,874	\$763,168

Note 15 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2016, the Educational Service Center paid \$12,465 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

B. Millstream Career and Technology Center

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Superintendents from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1100 Broad Avenue, Findlay Ohio 45840.

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

Note 16 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a nine member board consisting of Superintendents, Treasurers, and Business Managers. Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing, consulting services, and establishing agreements between SORSA and its members. Financial information can be obtained by contacting SORSA, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the consultant, Neace Lukens, concerning aspects of the administration of the Plan.

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

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

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

Notes 17 - Contingencies

A. Grants

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

B. Litigation

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

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

	2015	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.05281740%	0.05145300%	0.05145300%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$3,013,812	\$2,604,007	\$3,059,745
Educational Service Center's Covered Employee Payroll	\$1,553,293	\$1,400,771	\$1,270,382
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	194.03%	185.90%	240.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the Educational Service Center's measurement date which is the prior fiscal year end.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Educational Service Center's Proportion of the Net Pension Liability	0.02905736%	0.03264718%	0.03264718%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$8,030,605	\$7,940,924	\$9,459,177
Educational Service Center's Covered Employee Payroll	\$3,027,143	\$3,384,046	\$2,990,685
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	265.29%	234.66%	316.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.10%	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the Educational Service Center's measurement date which is the prior fiscal year end.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$197,479	\$204,724	\$194,147	\$175,821
Contributions in Relation to the Contractually Required Contribution	<u>(197,479)</u>	<u>(204,724)</u>	<u>(194,147)</u>	<u>(175,821)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center's Covered Employee Payroll	\$1,410,564	\$1,553,293	\$1,400,771	\$1,270,382
Contributions as a Percentage of Covered Employee Payroll	14.00%	13.18%	13.86%	13.84%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$164,073	\$146,816	\$153,675	\$143,426	\$129,241	\$119,074
<u>(164,073)</u>	<u>(146,816)</u>	<u>(153,675)</u>	<u>(143,426)</u>	<u>(129,241)</u>	<u>(119,074)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,219,874	\$1,167,985	\$1,134,969	\$1,455,754	\$1,316,103	\$1,114,925
13.45%	12.57%	13.54%	9.84%	9.82%	10.68%

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$466,785	\$423,800	\$439,926	\$388,789
Contributions in Relation to the Contractually Required Contribution	<u>(466,785)</u>	<u>(423,800)</u>	<u>(439,926)</u>	<u>(388,789)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center's Covered Employee Payroll	\$3,334,179	\$3,027,143	\$3,384,046	\$2,990,685
Contributions as a Percentage of Covered Employee Payroll	14.00%	14.00%	13.00%	13.00%

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$368,333	\$345,625	\$301,146	\$372,991	\$330,501	\$316,896
<u>(368,333)</u>	<u>(345,625)</u>	<u>(301,146)</u>	<u>(372,991)</u>	<u>(330,501)</u>	<u>(316,896)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,833,331	\$2,658,654	\$2,316,508	\$2,869,162	\$2,542,315	\$2,437,662
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$326,068	
Interest			5,018	
Tuition and Fees			3,185,782	
Customer Services			3,188,752	
Miscellaneous			37,602	
Total Revenues			<u>6,743,222</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	115,162	115,162	109,634	5,528
Special	2,897,147	2,897,145	2,639,830	257,315
Support Services:				
Pupils	1,653,732	1,667,552	1,585,627	81,925
Instructional Staff	916,943	967,105	921,459	45,646
Board of Education	74,949	74,949	64,431	10,518
Administration	1,088,530	1,088,530	1,011,476	77,054
Fiscal	278,630	278,630	261,388	17,242
Operation and Maintenance of Plant	115,385	120,435	106,581	13,854
Pupil Transportation	4,000	4,000	2,353	1,647
Central	20,786	20,786	16,253	4,533
Non-Instructional Services	4,515	4,515	1,488	3,027
Extracurricular Activities	0	2,025	1,992	33
Total Expenditures	<u>7,169,779</u>	<u>7,240,834</u>	<u>6,722,512</u>	<u>518,322</u>
Excess of Revenues Over (Under) Expenditures	(7,169,779)	(7,240,834)	20,710	7,261,544
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures	<u>0</u>	<u>0</u>	19,086	19,086
Changes in Fund Balance	(7,169,779)	(7,240,834)	39,796	7,280,630
Fund Balance at Beginning of Year	1,270,333	1,270,333	1,270,333	0
Prior Year Encumbrances Appropriated	60,250	60,250	60,250	0
Fund Balance at End of Year			<u>\$1,370,379</u>	<u>\$7,280,630</u>

See Accompanying Notes to the Supplemental Section

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO SUPPLEMENTAL SECTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Note 1 - Budgetary Process

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

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

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

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

Note 2 - Budgetary Basis of Accounting

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

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

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Continued)**

Change in Fund Balance	General Fund
GAAP Basis	\$97,196
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2015, Received in Cash FY 2016	77,174
Accrued FY 2016, Not Yet Received in Cash	(109,598)
Expenditure Accruals:	
Accrued FY 2015, Paid in Cash FY 2016	(747,766)
Accrued FY 2016, Not Yet Paid in Cash	765,792
Cash Adjustments:	
Unrecorded Activity FY 2015	107
Unrecorded Activity FY 2016	(1,366)
Prepaid Items	(7,425)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(34,318)
Budget Basis	\$39,796

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED**

The discussion and analysis of Hancock County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

Highlights

Highlights for fiscal year 2015 are as follows:

Net position increased \$460,446, or 4 percent.

Program specific revenues, in the form of charges for services and operating grants, accounted for \$6,643,764, or 99 percent of total revenues.

Using the Basic Financial Statements

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Hancock County Educational Service Center, the General Fund is the most significant fund.

Reporting the Educational Service Center as a Whole

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2015. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities, including instruction, support services, non-instructional services, and extracurricular activities.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major fund is the General Fund.

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

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2015 and fiscal year 2014.

Table 1
Net Position

	<u>Governmental Activities</u>		Change
	<u>2015</u>	<u>2014</u>	
<u>Assets</u>			
Current and Other Assets	\$1,458,439	\$1,205,093	\$253,346
Capital Assets, Net	30,421	32,445	(2,024)
Total Assets	<u>1,488,860</u>	<u>1,237,538</u>	<u>251,322</u>
<u>Deferred Outflows of Resources</u>			
Pension	<u>727,136</u>	<u>656,017</u>	<u>71,119</u>

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2015</u>	<u>2014</u>	
<u>Liabilities</u>			
Current and Other Liabilities	\$751,082	\$766,660	\$15,578
Long-Term Liabilities			
Pension	10,544,931	12,518,922	1,973,991
Other Amounts	350,606	390,781	40,175
Total Liabilities	<u>11,646,619</u>	<u>13,676,363</u>	<u>2,029,744</u>
<u>Deferred Inflows of Resources</u>			
Pension	<u>1,891,739</u>	<u>0</u>	<u>(1,891,739)</u>
<u>Net Position</u>			
Net Investment in Capital Assets	30,421	32,445	(2,024)
Restricted	47,259	1,205	46,054
Unrestricted (Deficit)	(11,400,042)	(11,816,458)	416,416
Total Net Position (Deficit)	<u>(\$11,322,362)</u>	<u>(\$11,782,808)</u>	<u>\$460,446</u>

During fiscal year 2015, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions", which significantly revises accounting for pension costs and liabilities. For reasons discussed below, end users of these financial statements will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange", that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
UNAUDITED
(Continued)**

that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer as to the employee because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB Statement No. 68, Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 68, the Educational Service Center is reporting a net pension liability and deferred outflows/inflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$80,097 to (\$11,782,808).

Aside from pension related activity, there were few changes of significance noted in the above table. The increase in current and other assets was primarily due to an increase in cash and cash equivalents. For fiscal year 2015, there was a decrease in revenues of over 3 percent but a decrease in expenses of over 8 percent. As a result, there were additional cash resources on hand at fiscal year end.

Table 2 reflects the change in net position for fiscal year 2015 and fiscal year 2014.

Table 2
Change in Net Position

	Governmental Activities		Change
	2015	2014	
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$6,209,699	\$6,159,840	\$49,859
Operating Grants and Contributions	434,065	581,056	(146,991)
Total Program Revenues	<u>6,643,764</u>	<u>6,740,896</u>	<u>(97,132)</u>
General Revenues			
Grants and Entitlements	171	148,624	(148,453)
Interest	3,106	2,182	924
Miscellaneous	44,623	47,369	(2,746)
Total General Revenues	<u>47,900</u>	<u>198,175</u>	<u>(150,275)</u>

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**UNAUDITED
(Continued)**

Total Revenues	6,691,664	6,939,071	(247,407)
<u>Expenses:</u>			
Instruction:			
Regular	123,482	211,420	87,938
Special	2,508,176	3,045,959	537,783
Adult/Continuing	0	41,340	41,340
Support Services:			
Pupils	1,528,257	1,496,760	(31,497)
Instructional Staff	914,972	960,309	45,337
Board of Education	36,588	41,646	5,058
Administration	697,521	670,765	(26,756)
Fiscal	280,218	250,790	(29,428)
Operation and Maintenance of Plant	92,005	134,950	42,945
Pupil Transportation	29,195	98,882	69,687
Central	16,832	13,735	(3,097)
Non-Instructional Services	1,632	2,247	615
Extracurricular Activities	2,340	2,562	222
Total Expenses	6,231,218	6,971,365	740,147
Increase (Decrease) in Net Position	460,446	(32,294)	492,740
Net Position (Deficit) at Beginning of Year	(11,782,808)	N/A	
Net Position (Deficit) at End of Year	(\$11,322,362)	(\$11,782,808)	\$460,446

The information necessary to restate the fiscal year 2014 beginning balance and the fiscal year 2014 pension expense amounts for the effects of the initial implementation of GASB Statement No. 68 is not available. Therefore, fiscal year 2014 functional expenses still include pension expense of \$656,017 computed under GASB Statement No. 27. GASB Statement No. 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB Statement No. 68, pension expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of pension expense. Under GASB Statement No. 68, the fiscal year 2015 statements report pension expense of \$475,153. Consequently, in order to compare fiscal year 2015 total program expenses to fiscal year 2014, the following adjustments are needed.

Total 2015 Program Expenses under GASB Statement No. 68	\$6,231,218
Pension Expense under GASB Statement No. 68	(475,153)
2015 Contractually Required Contribution	628,524
Adjusted 2015 Program Expenses	6,384,589
Total 2014 Program Expenses under GASB Statement No. 27	(6,971,365)
Decrease in Program Expenses not Related to Pension	(\$586,776)

Program revenues were 99 percent of total revenues for fiscal year 2015 (97 percent for fiscal year 2014) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 93 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to eight local school districts and one city school district in Northwest Ohio. The decrease in total revenues from the prior fiscal year is primarily due to a

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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decrease in State funding for both restricted (operating grants and contributions) and unrestricted (grants and entitlements) resources.

Total expenses decreased over 8 percent from the prior fiscal primarily related to staff reductions (resignations and retirements).

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2015	2014	2015	2014
Instruction:				
Regular	\$123,482	\$211,420	(\$1,127,634)	(\$990,703)
Special	2,508,176	3,045,959	(2,614,984)	(2,274,394)
Adult/Continuing	0	41,340	0	41,340
Support Services:				
Pupils	\$1,528,257	\$1,496,760	\$1,528,257	\$1,496,760
Instructional Staff	914,972	960,309	914,972	956,821
Board of Education	36,588	41,646	36,588	41,646
Administration	697,521	670,765	443,963	670,491
Fiscal	280,218	250,790	280,218	250,790
Operation and Maintenance of Plant	92,005	134,950	92,005	134,950
Pupil Transportation	29,195	98,882	17,170	(111,036)
Central	16,832	13,735	16,832	13,735
Non-Instructional Services	1,632	2,247	(2,273)	(2,493)
Extracurricular Activities	2,340	2,562	2,340	2,562
Total Expenses	<u>\$6,231,218</u>	<u>\$6,971,365</u>	<u>(\$412,546)</u>	<u>\$230,469</u>

As indicated previously, a significant portion of the Educational Service Center's program costs are provided for through program revenues, that being charges for programs provided by the Educational Service Center to school districts served by the Educational Service Center and from various grant resources.

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be quite under funded. Some expenses within the pupils support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
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(Continued)**

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance increased 51 percent for the General Fund. There was a modest 2 percent decrease in revenues and expenditures decreased over 5 percent (in part, due to staff reductions).

Capital Assets

At June 30, 2015, the Educational Service Center had \$30,421 invested in capital assets (net of accumulated depreciation). Additions and disposals were minimal. For further information regarding the Educational Service Center's capital assets, refer to Note 7 to the basic financial statements.

Current Issues

State foundation revenues are expected to continue to decrease slightly due to the change in the State funding calculation (going from \$37 to \$35 per student), as well as the amount being prorated to stay within the State appropriations. Service contract revenue is expected to moderately increase due to the anticipation of this decrease in State funding and the local school districts belonging to the Educational Service Center still needing services. Grant funding is expected to stay the same or minimally decrease.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Greg Spiess, Hancock County Educational Service Center, 7746 County Road 140 Findlay, Ohio 45840-1978.

Hancock County Educational Service Center
Statement of Net Position
June 30, 2015

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$1,381,265
Accrued Interest Receivable	22
Intergovernmental Receivable	77,152
Depreciable Capital Assets, Net	30,421
Total Assets	1,488,860
 <u>Deferred Outflows of Resources:</u>	
Pension	727,136
 <u>Liabilities:</u>	
Accounts Payable	5,973
Accrued Wages and Benefits Payable	557,442
Matured Compensated Absences Payable	28,443
Intergovernmental Payable	159,224
Long-Term Liabilities:	
Due Within One Year	27,589
Due in More Than One Year	
Net Pension Liability	10,544,931
Other Amounts Due in More Than One Year	323,017
Total Liabilities	11,646,619
 <u>Deferred Inflows of Resources:</u>	
Pension	1,891,739
 <u>Net Position:</u>	
Net Investment in Capital Assets	30,421
Restricted For:	
Other Purposes	47,259
Unrestricted (Deficit)	(11,400,042)
Total Net Position (Deficit)	(\$11,322,362)

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2015

	Program Revenues		Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$123,482	\$1,191,127	\$59,989	\$1,127,634
Special	2,508,176	4,749,084	374,076	2,614,984
Adult/Continuing	0	0	0	0
Support Services:				
Pupils	1,528,257	0	0	(1,528,257)
Instructional Staff	914,972	0	0	(914,972)
Board of Education	36,588	0	0	(36,588)
Administration	697,521	253,558	0	(443,963)
Fiscal	280,218	0	0	(280,218)
Operation and Maintenance of Plant	92,005	0	0	(92,005)
Pupil Transportation	29,195	12,025	0	(17,170)
Central	16,832	0	0	(16,832)
Non-Instructional Services	1,632	3,905	0	2,273
Extracurricular Activities	2,340	0	0	(2,340)
Total Governmental Activities	<u>\$6,231,218</u>	<u>\$6,209,699</u>	<u>\$434,065</u>	<u>412,546</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Programs	171
Interest	3,106
Miscellaneous	44,623
Total General Revenues	<u>47,900</u>
Change in Net Position	460,446
Net Position at Beginning of Year - Restated (Note 3)	<u>(11,782,808)</u>
Net Position at End of Year (Deficit)	<u><u>(\$11,322,362)</u></u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2015

	General	Other Governmental	Total Governmental Funds
<u>Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,329,677	\$50,575	\$1,380,252
Accrued Interest Receivable	22	0	22
Intergovernmental Receivable	77,152	0	77,152
<u>Restricted Assets:</u>			
Equity in Pooled Cash and Cash Equivalents	1,013	0	1,013
Total Assets	\$1,407,864	\$50,575	\$1,458,439
 <u>Liabilities</u>			
Accounts Payable	\$5,973	\$0	\$5,973
Accrued Wages and Benefits Payable	554,609	2,833	557,442
Matured Compensated Absences Payable	28,443	0	28,443
Intergovernmental Payable	158,741	483	159,224
Total Liabilities	747,766	3,316	751,082
 <u>Fund Balances:</u>			
Nonspendable	1,013	0	1,013
Restricted	0	47,259	47,259
Assigned	58,547	0	58,547
Unassigned	600,538	0	600,538
Total Fund Balances	660,098	47,259	707,357
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	 \$1,407,864	 \$50,575	 \$1,458,439

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
 Reconciliation of Total Governmental Fund Balances
 to Net Position of Governmental Activities
 June 30, 2015

Total Governmental Fund Balances	\$707,357
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Amounts reported for governmental activities on the statement of net position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	30,421
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Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(350,606)
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The net pension liability is not due and payable in the current period; therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.

Deferred Outflows	727,136	
Deferred Inflows	(1,891,739)	
Net Pension Liability	<u>(10,544,931)</u>	<u>(11,709,534)</u>

Net Position of Governmental Activities	<u><u>(\$11,322,362)</u></u>
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See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General	Other Governmental	Total Governmental Funds
<u>Revenues:</u>			
Intergovernmental	\$327,231	\$59,989	\$387,220
Interest	3,106	0	3,106
Tuition and Fees	3,078,091	0	3,078,091
Customer Services	3,131,608	0	3,131,608
Gifts and Donations	0	47,016	47,016
Miscellaneous	44,571	52	44,623
Total Revenues	<u>6,584,607</u>	<u>107,057</u>	<u>6,691,664</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	92,253	32,439	124,692
Special	2,577,879	0	2,577,879
Support Services:			
Pupils	1,573,877	0	1,573,877
Instructional Staff	909,783	25,964	935,747
Board of Education	36,588	0	36,588
Administration	719,128	800	719,928
Fiscal	287,441	0	287,441
Operation and Maintenance of Plant	95,419	0	95,419
Pupil Transportation	50,365	0	50,365
Central	15,032	1,800	16,832
Non-Instructional Services	1,632	0	1,632
Extracurricular Activities	2,340	0	2,340
Total Expenditures	<u>6,361,737</u>	<u>61,003</u>	<u>6,422,740</u>
Changes in Fund Balances	222,870	46,054	268,924
Fund Balances at Beginning of Year	437,228	1,205	438,433
Fund Balances at End of Year	<u>\$660,098</u>	<u>\$47,259</u>	<u>\$707,357</u>

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances
 of Governmental Funds to Statement of Activities
 For the Fiscal Year Ended June 30, 2015

Changes in Fund Balances - Total Governmental Funds		\$268,924
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year.</p>		
Capital Outlay - Depreciable Capital Assets	4,680	
Depreciation	(6,588)	(1,908)
<p>The book value of capital assets is removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities.</p>		
		(116)
<p>Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		40,175
<p>Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities.</p>		
		(475,153)
<p>Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows.</p>		
		628,524
Change in Net Position of Governmental Activities		\$460,446

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Statement of Fiduciary Net Position
Agency Funds
June 30, 2015

<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$53,252</u></u>
<u>Liabilities:</u>	
Undistributed Assets	\$51,768
Due to Students	<u>1,484</u>
Total Liabilities	<u><u>\$53,252</u></u>

See Accompanying Notes to the Basic Financial Statements

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Note 1 - Reporting Entity

The Hancock County Educational Service Center (the "Educational Service Center") is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Riverdale, Van Buren, and Vanlue Local School Districts and the Findlay City School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has seventeen administrators, seventy-six classified employees, and sixty-three certified teaching personnel that provide services to the local and city school districts.

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

B. Fund Accounting

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

Governmental Funds

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

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HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

reported as fund balance. The Educational Service Center's only major governmental fund is the General Fund.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2015. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for the Family First Council.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

arise in the recognition of revenue, the recording of deferred outflows and deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 10 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 10 to the basic financial statements.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

E. Cash and Investments

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

During fiscal year 2015, investments consisted of negotiable certificates of deposit and STAR Ohio. Negotiable certificates of deposit are reported at fair value. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's net asset value per share, which is the price the investment could be sold for on June 30, 2015.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2015 was \$3,106, which includes \$207 assigned from other Educational Service Center funds.

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

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

G. Capital Assets

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

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

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

<u>Description</u>	<u>Useful Lives</u>
Buildings and Building Improvements	25 years
Furniture, Fixtures, and Equipment	5-15 years

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

H. Compensated Absences

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

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

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

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

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Net Position

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

K. Fund Balance

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

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

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

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

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

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

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

L. Pensions

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

M. Estimates

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

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Note 3 - Change in Accounting Principle and Restatement of Net Position

For fiscal year 2015, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions" and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". GASB Statement No. 68 established standards for measuring and recognizing pension liabilities, deferred outflows and deferred inflows of resources, and pension expenses/expenditures.

The implementation of this statement had the following effect on net position as previously reported on June 30, 2014.

Net Position June 30, 2014	\$80,097
Net Pension Liability	(12,518,922)
Deferred Outflows - Payments Subsequent to Measurement Date	656,017
Restated Net Position June 30, 2014	<u>(\$11,782,808)</u>

Other than employer contributions subsequent to the measurement date, the Educational Service Center made no restatement for deferred outflows or deferred inflows of resources as the information needed to generate these restatements was not available.

Note 4 - Deposits and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan

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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;
4. Bonds and other obligations of the State of Ohio or Ohio local governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
7. The State Treasurer's investment pool (STAR Ohio); and
8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Investments

As of June 30, 2015, the Educational Service Center had the following investment:

	Fair Value	Maturity
Negotiable Certificates of Deposit	\$100,107	2/22/17
STAR Ohio	683,953	53 days average

The negotiable certificates of deposit are covered by FDIC insurance. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with interest rate or credit risk beyond the requirements of State statute. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

Negotiable certificates of deposit make up 13 percent of the Educational Service Center's total portfolio.

Note 5 - State Funding

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

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Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the school districts agree to the services and the apportionment of the costs.

The Educational Service Center also receives funding from the State Department of Education, in the amount of \$35 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to \$6.50 multiplied by the school district's total student count and remits this amount to the Educational Service Center.

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

Note 6 - Receivables

Receivables at June 30, 2015, included accrued interest and intergovernmental receivables. All receivables are considered collectible in full and within one year due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Various School Districts	\$77,152

Note 7 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	\$61,711	\$0	\$0	\$61,711
Furniture, Fixtures, and Equipment	185,209	4,680	(17,551)	172,338
Total Depreciable Capital Assets	246,920	4,680	(17,551)	234,049
Less Accumulated Depreciation				
Buildings and Building Improvements	(46,538)	(995)	0	(47,533)
Furniture, Fixtures, and Equipment	(167,937)	(5,593)	17,435	(156,095)
Total Accumulated Depreciation	(214,475)	(6,588)	17,435	(203,628)
Governmental Activities				
Capital Assets, Net	\$32,445	(\$1,908)	(\$116)	\$30,421

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$995
Special	3,888
Support Services:	
Pupils	530
Instructional Staff	134
Administration	657
Fiscal	384
Total Depreciation Expense	\$6,588

Note 8 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority	
General Liability	
Per Occurrence	\$5,000,000
Total per Year	7,000,000
Auto Liability	
	5,000,000
Commercial Property	
	517,966
Excess Liability	
	10,000,000

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

For fiscal year 2015, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Educational Service Center pays monthly premiums to the Fund for employee medical, dental, and vision insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated

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as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

Note 9 - Contractual Commitments

At fiscal year end, the General Fund had \$60,250 of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2016.

Note 10 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer because (1) they benefit from employee services, and (2) State statute requires all funding to come from the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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contribution outstanding at the end of the fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows.

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

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining .82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

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The Educational Service Center's contractually required contribution to SERS was \$204,724 for fiscal year 2015. Of this amount, \$32,074 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). Benefits are established by Ohio Revised Code Chapter 3307. The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-five years of service credit, or thirty years of service credit regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age sixty with thirty-five years of service or age sixty-five with five years of service on August 1, 2026.

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

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

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

A DBP or CP member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DCP who become disabled are

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entitled only to their account balance. If a member of the DCP dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased 1 percent on July 1, 2014, and will be increased 1 percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$423,800 for fiscal year 2015. Of this amount, \$79,874 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$2,604,007	\$7,940,924	\$10,544,931
Proportion of the Net Pension Liability	0.05145300%	0.03264718%	
Pension Expense	160,828	314,325	475,153

At June 30, 2015, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$22,163	\$76,449	\$98,612
Educational Service Center contributions subsequent to the measurement date	<u>204,724</u>	<u>423,800</u>	<u>628,524</u>
Total Deferred Outflows of Resources	<u>226,887</u>	<u>500,249</u>	<u>727,136</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$422,638</u>	<u>\$1,469,101</u>	<u>\$1,891,739</u>

\$628,524 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

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Fiscal Year Ended June 30,	SERS	STRS	Total
2016	(\$100,063)	(\$348,163)	(\$448,226)
2017	(100,063)	(348,163)	(448,226)
2018	(100,063)	(348,163)	(448,226)
2019	(100,286)	(348,163)	(448,449)
Total	<u>(\$400,475)</u>	<u>(\$1,392,652)</u>	<u>(\$1,793,127)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2014, are presented below.

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

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

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

The long-term return expectation for the pension plan investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' Statement of Investment

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Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table.

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Educational Service Center's Proportionate Share of the Net Pension Liability	\$3,715,144	\$2,604,007	\$1,669,445

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

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Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

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

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

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study effective July 1, 2012.

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. 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, 2014. Therefore, the long-term expected rate of return on pension plan

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

investments of 7.75 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$11,368,299	\$7,940,924	\$5,042,519

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2015, three of the Board of Education members has elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, .82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2015, the Educational Service Center's surcharge obligation was \$25,677.

The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 was \$12,737, \$1,961, and \$2,033, respectively. For fiscal year 2015, 86 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2014 and 2013.

State Teachers Retirement System (STRS)

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

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. All benefit recipients for the most recent year pay a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to postemployment health care. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$33,840, and \$29,913 respectively. The full amount has been contributed for all three fiscal years.

Note 12 - Other Employee Benefits

A. Compensated Absences

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

Classified and certified employees and administrators earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty-five days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of thirty days. After the thirty-day maximum is achieved, employees are paid one additional day for each year of service with the Educational Service Center, up to a total maximum of forty-eight days. An employee's severance pay is pro-rated if they have not served five years with the Educational Service Center.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

B. Health Care Benefits

The Educational Service Center provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. Depending upon the plan chose, the employees share the cost of the monthly premium with the Board. The Educational Service Center also offers life insurance to all employees through the Ohio Schools Council Association Life Insurance Company.

Note 13 - Long-Term Obligations

Changes in the Educational Service Center's long-term obligations during fiscal year 2015 were as follows:

	Balance at 6/30/14	Additions	Reductions	Balance at 6/30/15	Amounts Due Within One Year
Governmental Activities					
Net Pension Liability					
SERS	\$3,059,745	\$0	\$455,738	\$2,604,007	\$0
STRS	9,459,177	0	1,518,253	7,940,924	0
Total Net Pension Liability	12,518,922	0	1,973,991	10,544,931	0
Compensated Absences	390,781	0	40,175	350,606	27,589
Total Governmental Activities	<u>\$12,909,703</u>	<u>\$0</u>	<u>\$2,014,166</u>	<u>\$10,895,537</u>	<u>\$27,589</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. For additional information related to the net pension liability, see Note 10 to the basic financial statements.

Compensated absences will be paid from the General Fund.

Note 14 - Fund Balance

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

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Unclaimed Monies	\$1,013	\$0	\$1,013
Restricted for:			
Regular Instruction	0	243	243
Special Instruction	0	47,016	47,016

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

Total Restricted:	0	47,259	47,259
Assigned for:			
Educational Activities	1,990	0	1,990
Non-Instructional Services	4,415	0	4,415
Unpaid Obligations	52,142	0	52,142
Total Assigned	58,547	0	58,547
Unassigned	600,538	0	600,538
Total Fund Balance	\$660,098	\$47,259	\$707,357

Note 15 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2015, the Educational Service Center paid \$10,738 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Superintendents from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1100 Broad Avenue, Findlay Ohio 45840.

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

Note 16 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a nine member board consisting of Superintendents, Treasurers, and Business Managers. Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing, consulting services, and establishing agreements between SORSA and its members. Financial information can be obtained by contacting SORSA, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. Each participants' superintendent is appointed to an Administrative Committee which advises the consultant, Neace Lukens, concerning aspects of the administration of the Plan.

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

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

Notes 17 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2015.

B. Litigation

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

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

	<u>2014</u>	<u>2013</u>
Educational Service Center's Proportion of the Net Pension Liability	0.05145300%	0.05145300%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$2,604,007	\$3,059,745
Educational Service Center's Covered Employee Payroll	\$1,400,771	\$1,270,382
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	185.90%	240.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

(1) Information prior to 2013 is not available.

Amounts presented as of the Educational Service Center's measurement date which is prior fiscal year end.

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

	2014	2013
Educational Service Center's Proportion of the Net Pension Liability	0.03264718%	0.03264718%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$7,940,924	\$9,459,177
Educational Service Center's Covered Employee Payroll	\$3,384,046	\$2,990,685
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Covered Employee Payroll	234.66%	316.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

(1) Information prior to 2013 is not available.

Amounts presented as of the Educational Service Center's measurement date which is prior fiscal year end.

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$204,724	\$194,147	\$175,821	\$164,073
Contributions in Relation to the Contractually Required Contribution	<u>(204,724)</u>	<u>(194,147)</u>	<u>(175,821)</u>	<u>(164,073)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Employee Payroll	\$1,553,293	\$1,400,771	\$1,270,382	\$1,219,874
Contributions as a Percentage of Covered Employee Payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$146,816	\$153,675	\$143,246	\$129,241	\$119,074	\$109,165
<u>(146,816)</u>	<u>(153,675)</u>	<u>(143,246)</u>	<u>(129,241)</u>	<u>(119,074)</u>	<u>(109,165)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,167,985	\$1,134,969	\$1,455,754	\$1,316,103	\$1,114,925	\$1,031,805
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

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

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$423,800	\$439,926	\$388,789	\$368,333
Contributions in Relation to the Contractually Required Contribution	<u>(423,800)</u>	<u>(439,926)</u>	<u>(388,789)</u>	<u>(368,333)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Employee Payroll	\$3,027,143	\$3,384,046	\$2,990,685	\$2,833,331
Contributions as a Percentage of Covered Employee Payroll	14.00%	13.00%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$345,625	\$301,146	\$372,991	\$330,501	\$316,896	\$314,120
<u>(345,625)</u>	<u>(301,146)</u>	<u>(372,991)</u>	<u>(330,501)</u>	<u>(316,896)</u>	<u>(314,120)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,658,654	\$2,316,508	\$2,869,162	\$2,542,315	\$2,437,662	\$2,416,308
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Hancock County Educational Service Center
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$327,231	
Interest			2,977	
Tuition and Fees			3,076,807	
Customer Services			3,147,595	
Miscellaneous			32,024	
Total Revenues			<u>6,586,634</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	98,509	98,509	93,757	4,752
Special	2,861,698	2,874,348	2,601,060	273,288
Support Services:				
Pupils	1,586,270	1,670,210	1,579,754	90,456
Instructional Staff	942,416	984,866	936,495	48,371
Board of Education	46,850	46,850	39,443	7,407
Administration	750,553	754,853	722,334	32,519
Fiscal	310,650	310,650	286,264	24,386
Operation and Maintenance of Plant	112,231	112,231	94,913	17,318
Pupil Transportation	97,800	60,800	55,616	5,184
Central	16,210	18,500	17,009	1,491
Non-Instructional Services	5,892	5,892	1,632	4,260
Extracurricular Activities	3,575	4,747	2,336	2,411
Total Expenditures	<u>6,832,654</u>	<u>6,942,456</u>	<u>6,430,613</u>	<u>511,843</u>
Excess of Revenues Over (Under) Expenditures	(6,832,654)	(6,942,456)	156,021	7,098,477
<u>Other Financing Sources:</u>				
Refund of Prior Year Expenditures	<u>0</u>	<u>0</u>	14,035	14,035
Changes in Fund Balance	(6,832,654)	(6,942,456)	170,056	7,112,512
Fund Balance at Beginning of Year	1,067,434	1,067,434	1,067,434	0
Prior Year Encumbrances Appropriated	32,843	32,843	32,843	0
Fund Balance at End of Year			<u>\$1,270,333</u>	<u>\$7,112,512</u>

See Accompanying Notes to the Supplemental Section

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO SUPPLEMENTAL SECTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Note 1 - Budgetary Process

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

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

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

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

Note 2 - Budgetary Basis of Accounting

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

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

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

**HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

Change in Fund Balance	General Fund
GAAP Basis	\$222,870
<u>Increase (Decrease) Due to:</u>	
Revenue Accruals:	
Accrued FY 2014, Received in Cash FY 2015	93,343
Accrued FY 2015, Not Yet Received in Cash	(77,174)
Expenditure Accruals:	
Accrued FY 2014, Paid in Cash FY 2015	(762,030)
Accrued FY 2015, Not Yet Paid in Cash	747,766
Cash Adjustments:	
Unrecorded Activity FY 2015	(107)
Prepaid Items	5,638
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(60,250)
Budget Basis	\$170,056



Dave Yost • Auditor of State

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

Hancock County Educational Service Center
Hancock County
7746 County Road 140, Suite A
Findlay, Ohio 45840-1978

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio (the Center) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 24, 2017, wherein we noted the Center adopted Governmental Accounting Standards Board Statement 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

May 24, 2017



Dave Yost • Auditor of State

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

HANCOCK 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
JUNE 20, 2017