

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

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

***FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015***

**MATT BAUER, TREASURER**





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the North Point Educational Service Center, Erie County, prepared by Julian & Grube, Inc., for the audit period July 1, 2014 through June 30, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

May 18, 2017

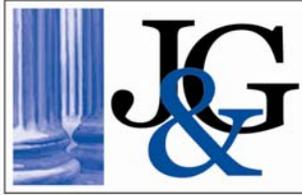
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**NORTH POINT EDUCATIONAL SERVICE CENTER  
ERIE COUNTY, OHIO**

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## **Julian & Grube, Inc.**

*Serving Ohio Local Governments*

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### Independent Auditor's Report

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

To the Governing Board:

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, Ohio, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the North Point Educational Service Center's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

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

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

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

#### ***Opinion***

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

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during the fiscal year ended June 30, 2015, the North Point Educational Service Center adopted the provisions of Governmental Accounting Standard No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. We did not modify our opinion regarding this matter.

As disclosed in Note 3, the North Point Educational Service Center has reported a prior period adjustment to eliminate the investment trust fund and properly state the agency fund at June 30, 2014. 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 North Point Educational Service Center's basic financial statements taken as a whole.

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2016 on our consideration of the North Point Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the North Point Educational Service Center's internal control over financial reporting and compliance.



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

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

The management's discussion and analysis of the North Point Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

**Financial Highlights**

Key financial highlights for fiscal year 2015 are as follows:

- In total, net position of governmental activities increased \$419,943, which represents a 1.61% increase from restated net position at June 30, 2014.
- General revenues accounted for \$759,685 in revenue or 4.34% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$16,740,329 or 95.66% of total revenues of \$17,500,014.
- The ESC had \$17,080,071 in expenses related to governmental activities; 16,740,329 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$759,685 were to help provide for these programs.
- The ESC's only major governmental fund is the general fund. The general fund had \$17,021,843 in revenues and \$16,942,955 in expenditures. During fiscal year 2015, the general fund's fund balance increased \$78,888 from \$6,339,288 to a balance of \$6,418,176.

**Using the Basic Financial Statements**

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

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

**Reporting the ESC as a Whole**

*Statement of Net Position and the Statement of Activities*

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did the ESC perform financially during 2015?" The statement of net position and statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

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

**Reporting the ESC's Most Significant Funds**

***Fund Financial Statements***

The analysis of the ESC's major governmental fund begins on page 10. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the ESC's most significant funds. The ESC's only major governmental fund is the general fund.

***Governmental Funds***

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

***Reporting the ESC's Fiduciary Responsibilities***

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

***Notes to the Basic Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 21 through 48 of this report.

***Budgetary Supplementary Information***

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 51-53.

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

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

***Required Supplementary Information***

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's net pension liability. The required supplementary information can be found on pages 56 through 62 of this report.

**The ESC as a Whole**

The table below provides a summary of the ESC's net position for fiscal years 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

	<b>Net Position</b>	
	Governmental	Restated
	Activities	Governmental
	<u>2015</u>	<u>2014</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 8,677,347	\$ 8,962,079
Capital assets, net	<u>1,014,015</u>	<u>1,043,695</u>
Total assets	<u>9,691,362</u>	<u>10,005,774</u>
<b><u>Deferred Outflows of Resources</u></b>		
Pension	<u>2,017,632</u>	<u>1,777,402</u>
Total deferred outflows of resources	<u>2,017,632</u>	<u>1,777,402</u>
<b><u>Liabilities</u></b>		
Current liabilities	2,029,989	2,204,627
Long-term liabilities:		
Due within one year	262,430	245,172
Due in more than one year:		
Net pension liability	28,924,161	34,350,562
Other amounts	<u>978,892</u>	<u>1,065,076</u>
Total liabilities	<u>32,195,472</u>	<u>37,865,437</u>
<b><u>Deferred Inflows of Resources</u></b>		
Pensions	<u>5,175,840</u>	-
Total deferred inflows of resources	<u>5,175,840</u>	-
<b><u>Net Position</u></b>		
Net investment in capital assets	1,014,015	1,043,695
Restricted	34,200	47,948
Unrestricted (deficit)	<u>(26,710,533)</u>	<u>(27,173,904)</u>
Total net position (deficit)	<u>\$ (25,662,318)</u>	<u>\$ (26,082,261)</u>

During 2015, the District adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the District's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

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

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

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

As a result of implementing GASB 68, the District is reporting a net pension liability and deferred inflows/outflows 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 \$6,490,899 to (\$26,082,261).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2015, the ESC's liabilities and deferred inflows exceeded assets and deferred outflows by \$25,662,318. Of this total, \$34,200 is restricted in use.

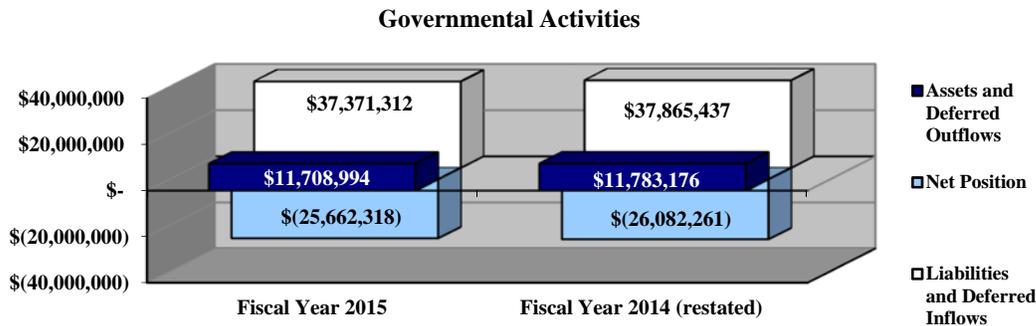
At year-end, capital assets represented 10.46% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. The ESC's investment in capital assets at June 30, 2015, was \$1,014,015. These capital assets are used to provide the ESC's services, thus net position invested in capital assets equal to the carrying value of assets is not available for future spending.

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

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

A portion of the ESC's net position, \$34,200, represents resources that are subject to external restriction on how these resources may be used. The remaining balance of unrestricted net position is \$(26,710,533).

The graph that follows illustrates the governmental activities assets and deferred outflows, liabilities and deferred inflows and net position at June 30, 2015 and 2014. The amounts at June 30, 2014 have been restated as described in Note 3.A.



**Governmental Activities**

Net position of the ESC's governmental activities increased \$419,943 due primarily to revenues exceeding expenditures during fiscal year 2015. Total governmental expenses of \$17,080,071 were offset by program revenues of \$16,740,329 and general revenues of \$759,685. Program revenues supported 98.01% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from sales and charges for services provided to other entities. This revenue source represents 92.15% of total governmental revenue.

The table below shows the change in net position for fiscal years 2015 and 2014. The net position at June 30, 2014 has been restated as described in Note 3.A.

	Governmental Activities 2015	Restated Governmental Activities 2014
<b>Revenues</b>		
Program revenues:		
Charges for services and sales	\$ 16,126,548	\$ 17,905,493
Operating grants and contributions	613,781	840,704
Capital grants and contributions	-	990,770
General revenues:		
Grants and entitlements	703,318	1,098,850
Investment earnings	14,880	14,594
Miscellaneous	41,487	71,391
Total revenues	<u>17,500,014</u>	<u>20,921,802</u>

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

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

	<b>Change in Net Position (Continued)</b>	
	Governmental	Restated
	Activities	Governmental
	2015	2014
<b><u>Expenses</u></b>		
Program expenses:		
Instruction:		
Regular	755,155	1,115,517
Special	6,466,512	7,618,179
Support services:		
Pupil	4,802,355	5,282,648
Instructional staff	3,418,124	3,319,360
Board of education	61,214	199,231
Administration	507,659	583,458
Fiscal	363,512	344,201
Business	6,236	47,653
Operations and maintenance	546,276	550,819
Central	53,216	58,449
Operation of non-instructional services	80,491	103,577
Extracurricular activities	<u>19,321</u>	<u>19,189</u>
Total expenses	<u>17,080,071</u>	<u>19,242,281</u>
Change in net position	419,943	1,679,521
Net position (deficit) at beginning of year (restated)	<u>(26,082,261)</u>	<u>(27,761,782)</u>
Net position (deficit) at end of year	<u><u>\$ (25,662,318)</u></u>	<u><u>\$ (26,082,261)</u></u>

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$1,777,402 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$1,256,988.

Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$ 17,080,071
Pension expense under GASB 68	(1,256,988)
2015 contractually required contributions	<u>1,747,779</u>
Adjusted 2015 program expenses	17,570,862
Total 2014 program expenses under GASB 27	<u>19,242,281</u>
(Decrease) in program expenses not related to pension	<u><u>\$ (1,671,419)</u></u>

Total revenues of the ESC decreased \$3,421,788 or 16.35%. The ESC had a large decrease of \$1,778,945 in charges for services due to a reduction in revenue associated with the services that the ESC provides. The \$990,770 received in 2014 for capital contributions is related to the donation of the Graytown building and the land associated with that building. This donation was a unique event and did not happen in 2015.

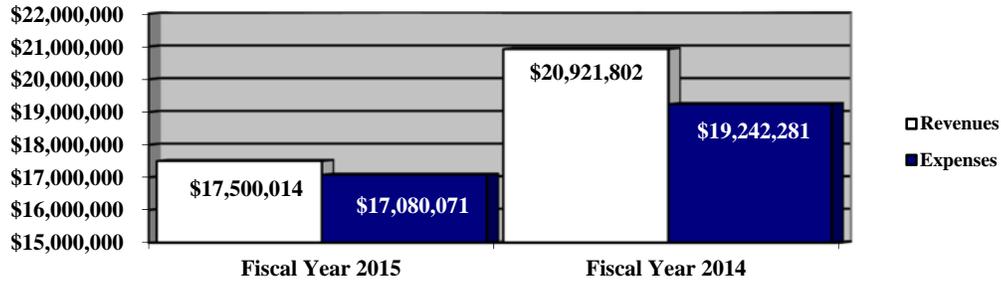
**NORTH POINT EDUCATIONAL SERVICE CENTER  
ERIE COUNTY, OHIO**

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

Total expense of the ESC decreased \$2,162,210 or 11.24%. This decrease can mainly be attributed to a decrease of \$1,481,321 in instruction service expenses in the areas of regular and special instruction.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2015 and 2014.

**Governmental Activities - Revenues and Expenses**



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

**Governmental Activities**

	Total Cost of Services 2015	Net Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2014
<b>Program expenses</b>				
Instruction:				
Regular	\$ 755,155	\$ 4,161	\$ 1,115,517	\$ 144,357
Special	6,466,512	42,135	7,618,179	(708,733)
Support services:				
Pupil	4,802,355	75,639	5,282,648	116,043
Instructional staff	3,418,124	122,226	3,319,360	(157,788)
Board of education	61,214	2,806	199,231	(10,125)
Administration	507,659	(41,777)	583,458	23,266
Fiscal	363,512	31,689	344,201	16,074
Business	6,236	2,506	47,653	300
Operations and maintenance	546,276	118,785	550,819	88,219
Central	53,216	(17,201)	58,449	(6,997)
Operation of non-instructional services	80,491	(325)	103,577	249
Extracurricular activities	19,321	(902)	19,189	449
<b>Total expenses</b>	<b>\$ 17,080,071</b>	<b>\$ 339,742</b>	<b>\$ 19,242,281</b>	<b>\$ (494,686)</b>

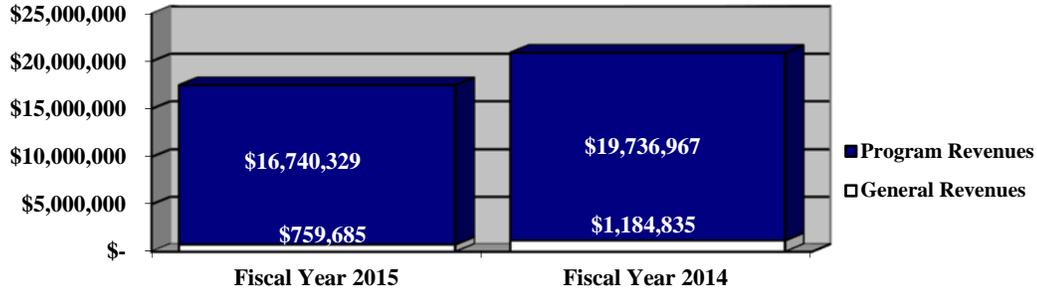
For all governmental activities, program revenue support is 98.01%. The primary support of the ESC is contracted fees for services provided to other districts.

**NORTH POINT EDUCATIONAL SERVICE CENTER  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

The graph below presents the ESC's governmental activities revenue for fiscal years 2015 and 2014.

**Governmental Activities - General and Program Revenues**



**The ESC's Funds**

The ESC's governmental funds (as presented on the balance sheet on page 15) reported a combined fund balance of \$6,451,544, which is higher than last year's balance of \$6,385,393. The schedule below indicates the fund balances and the total change in fund balance during the fiscal years ended June 30, 2015 and June 30, 2014.

	Fund Balance June 30, 2015	Fund Balance June 30, 2014	Change
General	\$ 6,418,176	\$ 6,339,288	\$ 78,888
Nonmajor governmental	33,368	46,105	(12,737)
<b>Total</b>	<b>\$ 6,451,544</b>	<b>\$ 6,385,393</b>	<b>\$ 66,151</b>

**General Fund**

The ESC's general fund balance increased by \$78,888. Overall revenues decreased by 9.66%. Services provided to other entities increased from \$145,089 to \$166,276 or 14.60% for fiscal year 2015. Additionally, the intergovernmental revenue decreased \$395,432 or 35.99%. This decrease can mainly be attributed to a decrease in special education early child funding and state per pupil funding from the State foundation.

Expenditures in the general fund decreased \$1,338,124 or 7.32% from fiscal year 2014. Instructional expenditures decreased \$1,015,528 or 12.82%. This decrease was due primarily to a decrease in regular and special instruction expenditures most notably in the areas of salaries, fringe benefits and purchased services. Support service expenditures decreased \$320,427 or 3.10%. This decrease was due mainly to a decrease in instructional staff which showed large decreases in the areas of salaries, fringe benefits and purchased services.

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

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

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

	2015 Amount	2014 Amount	Change	Percentage Change
<b><u>Revenues</u></b>				
Tuition	\$ 16,070,202	\$ 17,504,573	\$ (1,434,371)	(8.19) %
Services provided to other entities	166,276	145,089	21,187	14.60 %
Earnings on investments	17,828	15,854	1,974	12.45 %
Intergovernmental	703,368	1,098,800	(395,432)	(35.99) %
Other revenues	<u>64,169</u>	<u>78,241</u>	<u>(14,072)</u>	(17.99) %
<b>Total</b>	<b><u>\$ 17,021,843</u></b>	<b><u>\$ 18,842,557</u></b>	<b><u>\$ (1,820,714)</u></b>	(9.66) %
<b><u>Expenditures</u></b>				
Instruction	\$ 6,904,874	\$ 7,920,402	\$ (1,015,528)	(12.82) %
Support services	10,004,295	10,324,722	(320,427)	(3.10) %
Operation on non-instructional services	13,939	16,766	(2,827)	(16.86) %
Extracurricular activities	<u>19,847</u>	<u>19,189</u>	<u>658</u>	3.43 %
<b>Total</b>	<b><u>\$ 16,942,955</u></b>	<b><u>\$ 18,281,079</u></b>	<b><u>\$ (1,338,124)</u></b>	(7.32) %
<b>Capital Assets</b>				

At the end of fiscal year 2015, the ESC had \$1,014,015 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported among the ESC's governmental activities.

The following table shows June 30, 2015 balances compared to June 30, 2014.

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

	Governmental Activities	
	2015	2014
Land	\$ 114,850	\$ 114,850
Buildings	844,129	861,321
Furniture and equipment	33,824	43,650
Vehicles	<u>21,212</u>	<u>23,874</u>
<b>Total</b>	<b><u>\$ 1,014,015</u></b>	<b><u>\$ 1,043,695</u></b>

The overall decrease in the ESC's capital assets, net of accumulated depreciation, of \$29,680 is attributable to the depreciation of the District's assets.

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

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

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

**Long-Term Obligations**

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

**Current Financial Related Activities**

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

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

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

**Contacting the ESC's Financial Management**

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

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

STATEMENT OF NET POSITION  
JUNE 30, 2015

	<b>Governmental Activities</b>
<b>Assets:</b>	
Equity in pooled cash and investments . . . . .	\$ 8,327,404
Receivables:	
Accounts . . . . .	6,952
Accrued interest . . . . .	2,292
Intergovernmental . . . . .	310,872
Prepayments . . . . .	29,827
Capital assets:	
Nondepreciable capital assets . . . . .	114,850
Depreciable capital assets, net . . . . .	899,165
Capital assets, net . . . . .	1,014,015
Total assets . . . . .	9,691,362
 <b>Deferred outflows of resources:</b>	
Pension - STRS . . . . .	1,439,551
Pension - SERS . . . . .	578,081
Total deferred outflows of resources . . . . .	2,017,632
 <b>Liabilities:</b>	
Accounts payable . . . . .	14,465
Accrued wages and benefits payable . . . . .	1,630,733
Intergovernmental payable . . . . .	93,724
Pension obligation payable . . . . .	291,067
Long-term liabilities:	
Due within one year . . . . .	262,430
Due in more than one year:	
Net pension liability . . . . .	28,924,161
Other amounts due in more than one year . . . . .	978,892
Total liabilities . . . . .	32,195,472
 <b>Deferred inflows of resources:</b>	
Pension - STRS . . . . .	3,896,493
Pension - SERS . . . . .	1,279,347
Total deferred inflows of resources . . . . .	5,175,840
 <b>Net position:</b>	
Investment in capital assets . . . . .	1,014,015
Restricted for:	
Permanent fund - nonexpendable . . . . .	2,645
Locally funded programs . . . . .	31,555
Unrestricted (deficit) . . . . .	(26,710,533)
Total net position (deficit) . . . . .	\$ (25,662,318)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental activities:</b>				
Instruction:				
Regular . . . . .	\$ 755,155	\$ 601,161	\$ 149,833	\$ (4,161)
Special . . . . .	6,466,512	6,131,301	293,076	(42,135)
Support services:				
Pupil . . . . .	4,802,355	4,726,013	703	(75,639)
Instructional staff . . . . .	3,418,124	3,225,059	70,839	(122,226)
Board of education . . . . .	61,214	58,408	-	(2,806)
Administration . . . . .	507,659	540,445	8,991	41,777
Fiscal . . . . .	363,512	317,423	14,400	(31,689)
Business . . . . .	6,236	3,730	-	(2,506)
Operations and maintenance . . . . .	546,276	427,491	-	(118,785)
Central . . . . .	53,216	70,417	-	17,201
Operation of non-instructional services . . . . .	80,491	10,355	70,461	325
Extracurricular activities . . . . .	19,321	14,745	5,478	902
<b>Total governmental activities . . . . .</b>	<b>\$ 17,080,071</b>	<b>\$ 16,126,548</b>	<b>\$ 613,781</b>	<b>(339,742)</b>
<b>General revenues:</b>				
Grants and entitlements not restricted to specific programs . . . . .				703,318
Investment earnings . . . . .				14,880
Miscellaneous . . . . .				41,487
<b>Total general revenues . . . . .</b>				<b>759,685</b>
Change in net position . . . . .				419,943
<b>Net position (deficit) at beginning of year (restated) . . . . .</b>				<b>(26,082,261)</b>
<b>Net position (deficit) at end of year . . . . .</b>				<b>\$ (25,662,318)</b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>			
Equity in pooled cash and investments . . . . .	\$ 8,276,249	\$ 51,155	\$ 8,327,404
Receivables:			
Accounts . . . . .	6,952	-	6,952
Accrued interest . . . . .	2,292	-	2,292
Intergovernmental. . . . .	310,872	-	310,872
Prepayments. . . . .	29,827	-	29,827
Total assets . . . . .	<u>\$ 8,626,192</u>	<u>\$ 51,155</u>	<u>\$ 8,677,347</u>
<b>Liabilities:</b>			
Accounts payable . . . . .	\$ 13,990	\$ 475	\$ 14,465
Accrued wages and benefits payable . . . . .	1,616,556	14,177	1,630,733
Compensated absences payable . . . . .	92,309	-	92,309
Intergovernmental payable . . . . .	93,148	576	93,724
Pension obligation payable . . . . .	288,508	2,559	291,067
Total liabilities. . . . .	<u>2,104,511</u>	<u>17,787</u>	<u>2,122,298</u>
<b>Deferred inflows of resources:</b>			
Miscellaneous revenue not available. . . . .	518	-	518
Contract services not available . . . . .	835	-	835
Tuition revenue not available . . . . .	102,152	-	102,152
Total deferred inflows of resources . . . . .	<u>103,505</u>	<u>-</u>	<u>103,505</u>
<b>Fund balances:</b>			
Nonspendable:			
Prepays. . . . .	29,827	-	29,827
Permanent fund . . . . .	-	2,645	2,645
Restricted:			
Locally funded programs . . . . .	-	31,555	31,555
Assigned:			
Student instruction . . . . .	19,104	-	19,104
Student and staff support. . . . .	86,821	-	86,821
Other purposes. . . . .	73,034	-	73,034
Unassigned (deficit). . . . .	6,209,390	(832)	6,208,558
Total fund balances . . . . .	<u>6,418,176</u>	<u>33,368</u>	<u>6,451,544</u>
Total liabilities, deferred inflows and fund balances .	<u>\$ 8,626,192</u>	<u>\$ 51,155</u>	<u>\$ 8,677,347</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET POSITION OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2015

<b>Total governmental fund balances</b>		\$	6,451,544
<i>Amounts reported for governmental activities on the statement of net position are different because:</i>			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			1,014,015
Other long-term assets, such as accounts receivable are not available available to pay for current-period expenditures and therefore are deferred inflows in the funds.			103,505
Long-term liabilities, such as compensated absences payable, are not due and payable in the current period and therefore are not reported in the funds.			(1,149,013)
The net pension liability is not due and payable in the current period; therefore, liability and related deferred inflows are not reported in governmental funds.			
Deferred outflows - Pension	\$	2,017,632	
Deferred Inflows - Pension		(5,175,840)	
Net pension liability		<u>(28,924,161)</u>	
Total			<u>(32,082,369)</u>
<b>Net position of governmental activities</b>		<b>\$</b>	<b><u>(25,662,318)</u></b>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
From local sources:			
Tuition . . . . .	\$ 16,070,202	\$ -	\$ 16,070,202
Earnings on investments . . . . .	17,828	-	17,828
Extracurricular . . . . .	1,105	-	1,105
Rental income . . . . .	3,356	-	3,356
Contributions and donations . . . . .	9,325	-	9,325
Contract services . . . . .	166,276	67,050	233,326
Other local revenues . . . . .	50,383	-	50,383
Intergovernmental - intermediate . . . . .	-	25,011	25,011
Intergovernmental - state . . . . .	703,368	399,591	1,102,959
Intergovernmental - federal . . . . .	-	181,431	181,431
Total revenues . . . . .	<u>17,021,843</u>	<u>673,083</u>	<u>17,694,926</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular . . . . .	561,150	214,859	776,009
Special . . . . .	6,343,724	293,286	6,637,010
Support services:			
Pupil . . . . .	4,993,453	2,918	4,996,371
Instructional staff . . . . .	3,464,692	84,752	3,549,444
Board of education . . . . .	61,506	-	61,506
Administration . . . . .	514,539	8,991	523,530
Fiscal . . . . .	351,466	14,400	365,866
Business . . . . .	3,996	-	3,996
Operations and maintenance . . . . .	541,319	-	541,319
Central . . . . .	73,324	-	73,324
Operation of non-instructional services . . . . .	13,939	66,614	80,553
Extracurricular activities . . . . .	19,847	-	19,847
Total expenditures . . . . .	<u>16,942,955</u>	<u>685,820</u>	<u>17,628,775</u>
Net change in fund balances . . . . .	78,888	(12,737)	66,151
<b>Fund balances at beginning of year . . . . .</b>	<u>6,339,288</u>	<u>46,105</u>	<u>6,385,393</u>
<b>Fund balances at end of year . . . . .</b>	<u>\$ 6,418,176</u>	<u>\$ 33,368</u>	<u>\$ 6,451,544</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

<b>Net change in fund balances - total governmental funds</b>	\$	66,151
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	\$ 326	
Current year depreciation	(30,006)	
Total		(29,680)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Services provided to other utilities	(1,965)	
Tuition	(179,476)	
Earnings on investments	(2,948)	
Intergovernmental	(1,627)	
Miscellaneous	(8,896)	
Total		(194,912)
 Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		
		87,593
 Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.		
		1,747,779
 Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
		(1,256,988)
 <b>Change in net position of governmental activities</b>	 \$	 419,943

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2015

	<u>Agency</u>
<b>Assets:</b>	
Equity in pooled cash and investments . . . .	\$ 10,445,224
Total assets. . . . .	<u>\$ 10,445,224</u>
<b>Liabilities:</b>	
Due to other governments. . . . .	\$ 10,445,224
Total liabilities . . . . .	<u>\$ 10,445,224</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

**NOTE 1 - DESCRIPTION OF THE ESC**

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

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

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

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

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

*JOINTLY GOVERNED ORGANIZATIONS*

Bay Area Council of Governments

The Bay Area Council of Governments (BACG) is a jointly governed organization. Members of the BACG consist of numerous school districts representing 7 counties (Ottawa, Sandusky, Seneca, Erie, Huron, Wood and Crawford). The BACG was formed for the purpose of purchasing goods and services at a lower cost. The items currently being purchased through the council of governments are natural gas and insurance. The only cost to the ESC is an administrative charge if it participates in purchasing through the BACG. The membership of BACG consists of the superintendent of each participating school district. The Board of Directors of the BACG consists of one elected representative of each county, the superintendent of the fiscal agent and two non-voting members (administrator and fiscal agent). Members of the Board serve staggered two-year terms. Financial activity for fiscal year 2015 is reported in the basic financial statements as an agency fund.

Northern Ohio Educational Computer Association

The Northern Ohio Educational Computer Association (NOECA) is a jointly governed organization, which is a computer consortium. NOECA is an association of numerous public school districts formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions among member school districts. The NOECA Board of Directors consists of two representatives from each county in which participating school districts are located, the chairman of each of the operating committees and a representative from the fiscal agent. The ESC serves as fiscal agent for NOECA. The ESC paid NOECA \$61,890 in fiscal year 2015 its services.

North Point Purchasing Cooperative

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

*PUBLIC ENTITY RISK POOLS*

Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

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

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

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

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

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

Huron-Erie School Employees Insurance Association

The Huron-Erie School Employees Insurance Association (the "Association") is a public entity risk pool comprised of numerous districts. The Association assembly consists of a superintendent or designated representative from each participating district and the program administrator. The Association is governed by a Board of Directors chosen from the general membership. The degree of control exercised by any participating district is limited to its representation on the Board. On January 1, 2006, the ESC became fiscal agent for the Association. Financial activity for fiscal year 2015 is reported in the basic financial statements as an agency fund. This financial activity does not include federal securities and various investments for which the treasurer of the ESC is not the custodian.

**B. Fund Accounting**

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

*GOVERNMENTAL FUNDS*

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

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

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

*FIDUCIARY FUNDS*

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, private-purpose trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for other organizations and individuals.

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

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

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

**C. Basis of Presentation and Measurement Focus**

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

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

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

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

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

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

**D. Basis of Accounting**

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

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

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

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

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the ESC, deferred outflows of resources have been reported for the following two items related the ESC's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the ESC's contributions to the pension systems subsequent to the measurement date.

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

The ESC also reports a deferred inflow of resources for the net difference between projected and actual earnings on pension plan investments related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

**E. Cash and Investments**

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

During fiscal year 2015, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and nonnegotiable certificates of deposit. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price at which the investment could be sold on June 30, 2015.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. The Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2015 amounted to \$17,828 which includes \$1,584 assigned from other ESC funds.

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

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

**F. Capital Assets**

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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

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

**G. Compensated Absences**

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

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

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

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

**H. Accrued Liabilities and Long-Term Obligations**

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**I. Fund Balance**

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

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

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**J. Net Position**

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

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

**K. Prepayments**

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

**L. Estimates**

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

**M. Interfund Activity**

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

**N. Pensions**

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**O. Extraordinary and Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2015.

**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE**

**A. Change in Accounting Principles/Restatement of Net Position**

For fiscal year 2015, the ESC has implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27", GASB Statement No. 69 "Government Combinations and Disposals of Government Operations", 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. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The Statement improves the decision usefulness of financial reporting by requiring that disclosures be made by governments about combination arrangements in which they engage and for disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the ESC.

GASB Statement No. 68 improves the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. The implementation of GASB Statement No. 68 affected the ESC's pension plan disclosures, as presented in Note 10 to the financial statements, and added required supplementary information which is presented on pages 56-62.

GASB Statement No. 71 improves the accounting and financial reporting by addressing an issue in GASB Statement No. 68, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

A net position restatement is required in order to implement GASB Statement No 68 and 71. The governmental activities at July 1, 2014 have been restated as follows:

	Governmental Activities
Net position as previously reported	\$ 6,490,899
Deferred outflows - payments subsequent to measurement date	1,777,402
Net pension liability	<u>(34,350,562)</u>
Restated net position at July 1, 2014	<u>\$ (26,082,261)</u>

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**NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)**

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

In addition, a prior period adjustment was required to properly report the ESC's investment trust fund. The ESC is no longer reporting the NOECA "A" Site Computer Center (the "Computer Center") as an investment trust fund. The ESC is fiscal agent for the Computer Center; however the primary purpose for the relationship is not the generation of income; therefore, the activity is properly reported in an agency fund.

The prior period adjustment had the following effect on net position as previously reported:

	Investment Trust
Net position as previously reported	\$ 1,742,730
Reclassification:	
Computer Center reclassified to agency fund	(1,742,730)
Restated net position at July 1, 2014	\$ -

**B. Deficit Fund Balances**

Fund balances at June 30, 2015 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Public school preschool	\$ 258
Miscellaneous State grants	574

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

**NOTE 4 - DEPOSITS AND INVESTMENTS**

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (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 ESC and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

**A. Cash on Hand**

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

**B. Deposits with Financial Institutions**

At June 30, 2015, the carrying amount of all ESC deposits was \$12,349,025. Based on the criteria described in GASB Statement No. 40, “*Deposits and Investment Risk Disclosure*”, as of June 30, 2015, \$3,776,631 of the ESC’s bank balance of \$11,984,934 was exposed to custodial risk as discussed below, while \$8,208,303 was covered by the FDIC.

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

**C. Investments**

As of June 30, 2015, the ESC had the following investments and maturities:

Investment type	Fair Value	Investment Maturity 6 months or less
STAR Ohio	\$ 6,423,560	\$ 6,423,560

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)**

*Credit Risk* is the possibility that an issuer or other counter party to an investment will not fulfill its obligation. The ESC's investments in STAR Ohio were assigned an AAAM money market rating by Standard & Poor's. The ESC's investment policy does not specifically address credit risk beyond requiring the ESC to only invest in securities authorized by State statute.

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

*Concentration of Credit Risk:* The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2015:

Investment type	Fair Value	% of Total
STAR Ohio	\$ 6,423,560	100.00

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2015:

<u>Cash and cash equivalents per note</u>	
Carrying amount of deposits	\$ 12,349,025
Investments	6,423,560
Cash on hand	43
Total	\$ 18,772,628
 <u>Cash and cash equivalents per statement of net position</u>	
Governmental activities	\$ 8,327,404
Agency funds	10,445,224
Total	\$ 18,772,628

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 5 - RECEIVABLES**

Receivables at June 30, 2015 consisted of accounts (charges for individual tuition and other services) accrued interest and intergovernmental (grants and billings to school districts for user charged services). All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

**Governmental activities:**

Accounts	\$ 6,952
Accrued interest	2,292
Intergovernmental	<u>310,872</u>
Total	<u>\$ 320,116</u>

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

**NOTE 6 - STATE FUNDING**

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

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

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their

State foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment. The local school districts to which the ESC provides services have agreed to pay a per pupil amount to provide additional funding for services provided by the ESC, \$9.50 per pupil for school districts located in Erie County and \$6.50 for school districts located in Huron, Ottawa, and Sandusky Counties.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7 - CAPITAL ASSETS**

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

	Balance 6/30/14	Additions	Deductions	Balance 6/30/15
<i>Capital assets, not being depreciated:</i>				
Land	\$ 114,850	\$ -	\$ -	\$ 114,850
Total capital assets, not being depreciated	<u>114,850</u>	<u>-</u>	<u>-</u>	<u>114,850</u>
<i>Capital assets, being depreciated:</i>				
Buildings	875,920	326	-	876,246
Furniture and equipment	306,816	-	-	306,816
Vehicles	<u>42,105</u>	<u>-</u>	<u>-</u>	<u>42,105</u>
Total capital assets, being depreciated	<u>1,224,841</u>	<u>326</u>	<u>-</u>	<u>1,225,167</u>
<i>Less: accumulated depreciation</i>				
Buildings	(14,599)	(17,518)	-	(32,117)
Furniture and equipment	(263,166)	(9,826)	-	(272,992)
Vehicles	<u>(18,231)</u>	<u>(2,662)</u>	<u>-</u>	<u>(20,893)</u>
Total accumulated depreciation	<u>(295,996)</u>	<u>(30,006)</u>	<u>-</u>	<u>(326,002)</u>
Governmental activities capital assets, net	<u>\$ 1,043,695</u>	<u>\$ (29,680)</u>	<u>\$ -</u>	<u>\$ 1,014,015</u>

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Special	\$ 17,518
<u>Support services:</u>	
Instructional staff	6,825
Fiscal	366
Business	2,240
Operations and maintenance	<u>3,057</u>
Total depreciation expense	<u>\$ 30,006</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8 - LONG-TERM OBLIGATIONS**

The ESC's long-term obligations at fiscal year-end consist of the following. Long-term obligations have been restated in accordance with Note 3.A.

	Restated Balance Outstanding 6/30/14	Additions	Reductions	Balance Outstanding 6/30/15	Amounts Due in One Year
Compensated absences	\$ 1,310,248	\$ 266,734	\$ (335,660)	\$ 1,241,322	\$ 262,430
Net pension liability	<u>34,350,562</u>	<u>-</u>	<u>(5,426,401)</u>	<u>28,924,161</u>	<u>-</u>
Total	<u>\$ 35,660,810</u>	<u>\$ 266,734</u>	<u>\$ (5,762,061)</u>	<u>\$ 30,165,483</u>	<u>\$ 262,430</u>

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

**NOTE 9 - RISK MANAGEMENT**

A. The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. During fiscal year 2015, the ESC has contracted with various insurance commercial carriers to provide insurance coverage for the following risks:

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

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

**B. Employee Health Benefits**

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 9 - RISK MANAGEMENT - (Continued)**

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

**C. Workers' Compensation Group Rating Plan**

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

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

***Net Pension Liability***

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

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

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

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

***Plan Description - School Employees Retirement System (SERS)***

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

Age and service requirements for retirement are as follows:

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the ESC is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was \$510,993 for fiscal year 2015.

***Plan Description - State Teachers Retirement System (STRS)***

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

The ESC's contractually required contribution to STRS was \$1,236,786 for fiscal year 2015.

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

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	\$ 7,862,469	\$ 21,061,692	\$ 28,924,161
Proportion of the Net Pension Liability	0.15575100%	0.08659003%	
Pension Expense	\$ 439,994	\$ 816,994	\$ 1,256,988

At June 30, 2015, the ESC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 67,088	\$ 202,765	\$ 269,853
ESC contributions subsequent to the measurement date	<u>510,993</u>	<u>1,236,786</u>	<u>1,747,779</u>
Total Deferred Outflows of Resources	<u>\$ 578,081</u>	<u>\$ 1,439,551</u>	<u>\$ 2,017,632</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$ 1,279,347</u>	<u>\$ 3,896,493</u>	<u>\$ 5,175,840</u>
Total Deferred Inflows of Resources	<u>\$ 1,279,347</u>	<u>\$ 3,896,493</u>	<u>\$ 5,175,840</u>

\$1,747,779 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	\$ (303,065)	\$ (923,432)	\$ (1,226,497)
2017	(303,065)	(923,432)	(1,226,497)
2018	(303,065)	(923,432)	(1,226,497)
2019	<u>(303,064)</u>	<u>(923,432)</u>	<u>(1,226,496)</u>
Total	<u>\$ (1,212,259)</u>	<u>\$ (3,693,728)</u>	<u>\$ (4,905,987)</u>

***Actuarial Assumptions - SERS***

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

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

**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
ESC's proportionate share of the net pension liability	\$ 11,245,941	\$ 7,862,469	\$ 5,053,499

**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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

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

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

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 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 investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)**

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$ 30,152,108	\$ 21,061,692	\$ 13,374,259

**NOTE 11 - POSTEMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

Health Care Plan Description - The ESC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://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 2015, 0.82 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. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the ESC's surcharge obligation was \$67,571.

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

**NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)**

The ESC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$105,534, \$78,195, and \$64,857, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**B. State Teachers Retirement System**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$90,359, and \$100,748, respectively. The full amount has been contributed for fiscal years 2015, 2014 and 2013.

**NOTE 12 - CONTINGENCIES**

**A. Grants**

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

**B. Litigation**

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

**C. Foundation Funding**

ESC Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional ESCs must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the ESC, which can extend past the fiscal year-end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2015 Foundation funding for the ESC; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the ESC.

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

**NOTE 13 - OTHER COMMITMENTS**

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

<u>Fund</u>	<u>Year-End Encumbrances</u>
General	\$ 105,925

**SUPPLEMENTARY INFORMATION**

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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
From local sources:				
Tuition . . . . .	\$ 16,159,890	\$ 16,159,890	\$ 16,704,546	\$ 544,656
Earnings on investments . . . . .	14,500	14,500	17,718	3,218
Rental income . . . . .	2,500	2,500	3,356	856
Contributions and donations . . . . .	200	200	-	(200)
Contract services. . . . .	105,500	105,500	137,766	32,266
Other local revenues . . . . .	53,000	53,000	49,634	(3,366)
Intergovernmental - state . . . . .	986,110	986,110	983,368	(2,742)
Total revenues . . . . .	<u>17,321,700</u>	<u>17,321,700</u>	<u>17,896,388</u>	<u>574,688</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular . . . . .	817,700	817,950	585,762	232,188
Special. . . . .	9,117,173	9,221,621	6,587,055	2,634,566
Support services:				
Pupil. . . . .	6,415,012	6,416,208	5,080,219	1,335,989
Instructional staff . . . . .	4,896,042	4,888,078	3,486,904	1,401,174
Board of education . . . . .	351,601	351,601	83,941	267,660
Administration. . . . .	983,600	992,106	578,966	413,140
Fiscal . . . . .	456,500	456,500	343,593	112,907
Business . . . . .	34,823	26,518	3,996	22,522
Operations and maintenance. . . . .	854,019	863,644	555,190	308,454
Central. . . . .	106,610	100,249	90,326	9,923
Total expenditures . . . . .	<u>24,033,080</u>	<u>24,134,475</u>	<u>17,395,952</u>	<u>6,738,523</u>
Excess (deficiency) of revenues over (under) expenditures. . . . .	<u>(6,711,380)</u>	<u>(6,812,775)</u>	<u>500,436</u>	<u>7,313,211</u>
<b>Other financing sources (uses):</b>				
Refund of prior year's expenditures . . . . .	125,000	125,000	209,114	84,114
Refund of prior year's receipts. . . . .	(3,000)	(280,310)	(280,310)	-
Sale of capital assets . . . . .	500	500	1,389	889
Total other financing sources (uses) . . . . .	<u>122,500</u>	<u>(154,810)</u>	<u>(69,807)</u>	<u>85,003</u>
Net change in fund balance . . . . .	(6,588,880)	(6,967,585)	430,629	7,398,214
<b>Fund balance at beginning of year . . . . .</b>	7,444,041	7,444,041	7,444,041	-
<b>Prior year encumbrances appropriated . . . . .</b>	196,233	196,233	196,233	-
<b>Fund balance at end of year . . . . .</b>	<u>\$ 1,051,394</u>	<u>\$ 672,689</u>	<u>\$ 8,070,903</u>	<u>\$ 7,398,214</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

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

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

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

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

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

NOTES TO THE SUPPLEMENTARY INFORMATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

**NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)**

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

**Net Change in Fund Balance**

	<u>General fund</u>
Budget basis	\$ 430,629
Net adjustment for revenue accruals	(910,164)
Net adjustment for expenditure accruals	358,775
Net adjustment for other sources and uses	69,807
Funds budgeted elsewhere	1,055
Adjustment for encumbrances	<u>128,786</u>
GAAP basis	<u>\$ 78,888</u>

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

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REQUIRED SUPPLEMENTARY INFORMATION

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	<b>2014</b>	<b>2013</b>
ESC's proportion of the net pension liability	0.15575100%	0.15575100%
ESC's proportionate share of the net pension liability	\$ 7,862,469	\$ 9,262,012
ESC's covered-employee payroll	\$ 4,525,815	\$ 3,664,689
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	173.72%	252.74%
Plan fiduciary net position as a percentage of the total pension liability	71.70%	65.52%

Note: Information prior to fiscal year 2013 was unavailable.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	<b>2014</b>	<b>2013</b>
ESC's proportion of the net pension liability	0.08659003%	0.08659003%
ESC's proportionate share of the net pension liability	\$ 21,061,692	\$ 25,088,550
ESC's covered-employee payroll	\$ 8,847,108	\$ 10,074,808
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	238.06%	249.02%
Plan fiduciary net position as a percentage of the total pension liability	74.70%	69.30%

Note: Information prior to fiscal year 2013 was unavailable.

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

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 510,993	\$ 627,278	\$ 507,193	\$ 476,531
Contributions in relation to the contractually required contribution	<u>(510,993)</u>	<u>(627,278)</u>	<u>(507,193)</u>	<u>(476,531)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 3,877,033	\$ 4,525,815	\$ 3,664,689	\$ 3,542,981
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>
\$ 489,475	\$ 550,907	\$ 396,993	\$ 376,937	\$ 427,747	\$ 433,208
<u>(489,475)</u>	<u>(550,907)</u>	<u>(396,993)</u>	<u>(376,937)</u>	<u>(427,747)</u>	<u>(433,208)</u>
<u>\$ -</u>					
\$ 3,893,994	\$ 4,068,737	\$ 4,034,482	\$ 3,838,462	\$ 4,005,122	\$ 4,094,594
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

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

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 1,236,786	\$ 1,150,124	\$ 1,309,725	\$ 1,258,968
Contributions in relation to the contractually required contribution	<u>(1,236,786)</u>	<u>(1,150,124)</u>	<u>(1,309,725)</u>	<u>(1,258,968)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC's covered-employee payroll	\$ 8,834,186	\$ 8,847,108	\$ 10,074,808	\$ 9,684,369
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>
\$ 1,313,583	\$ 1,276,459	\$ 1,254,451	\$ 1,172,343	\$ 1,108,176	\$ 1,085,843
(1,313,583)	(1,276,459)	(1,254,451)	(1,172,343)	(1,108,176)	(1,085,843)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 10,104,485	\$ 9,818,915	\$ 9,649,623	\$ 9,018,023	\$ 8,524,431	\$ 8,352,638
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

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

*SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO*

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.

*STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO*

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for fiscal year 2014 and 2015.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2014 and 2015. See the notes to the basic financials for the methods and assumptions in this calculation.



**Julian & Grube, Inc.**  
*Serving Ohio Local Governments*

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

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

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the North Point Educational Service Center, Erie County, as of and for the fiscal year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the North Point Educational Service Center's basic financial statements and have issued our report thereon dated December 13, 2016, wherein we noted as discussed in Note 3, the North Point Educational Service Center adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68* and reported a prior period adjustment to eliminate the investment trust fund and properly state the agency fund at June 30, 2014.

***Internal Control Over Financial Reporting***

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

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

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

Governing Board  
North Point Educational Service Center

***Compliance and Other Matters***

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

***Purpose of this Report***

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

A handwritten signature in cursive script that reads "Julian & Grube, Inc." The signature is written in black ink and is positioned above the printed name of the firm.

Julian & Grube, Inc.  
December 13, 2016



# Dave Yost • Auditor of State

**NORTH POINT EDUCATIONAL SERVICE CENTER**

**ERIE COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
MAY 30, 2017**