



Dave Yost • Auditor of State



**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Northwest Ohio Educational Service Center  
Fulton County  
205 Nolan Parkway  
Archbold, Ohio 43502-8404

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northwest Ohio Educational Service Center, Fulton County, Ohio (the Center), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

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

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express such 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, each major fund, and the aggregate remaining fund information of Northwest Ohio Educational Service Center, Fulton County, Ohio, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

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

#### *Supplementary Information*

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

The schedule of revenues, expenditures, and changes in fund balance – budget and actual for the General, Migrant and OMEC, and Title VI-B funds present additional analysis and are not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2018, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 8, 2018

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Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

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The discussion and analysis of Northwest Ohio Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the basic financial statements and notes to enhance their understanding of the Educational Service Center's financial performance.

**Highlights**

Highlights for fiscal year 2017 are as follows:

There was a decrease in net position for fiscal year 2017 of \$142,528, or less than 1 percent.

**Using the Basic Financial Statements**

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

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

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Northwest Ohio Educational Service Center, the General Fund and the Migrant and OMEC and Title VI-B (Individual Disabilities Education Act Grant (IDEA-B)) special revenue funds are the most significant funds.

**Reporting the Educational Service Center as a Whole**

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

**Reporting the Educational Service Center's Most Significant Funds**

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Migrant and OMEC and Title VI-B (Individual Disabilities Education Act Grant (IDEA-B)) special revenue funds.

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

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

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2017 and fiscal year 2016.

Table 1  
Net Position

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2017</u>	<u>2016</u>	
<u>Assets</u>			
Current and Other Assets	\$4,242,895	\$3,595,565	\$647,330
Capital Assets, Net	5,768,238	5,956,510	(188,272)
Total Assets	<u>10,011,133</u>	<u>9,552,075</u>	<u>459,058</u>
<u>Deferred Outflows of Resources</u>			
Pension	<u>6,014,609</u>	<u>2,616,005</u>	<u>3,398,604</u>
<u>Liabilities</u>			
Current and Other Liabilities	2,361,739	2,014,809	(346,930)
Long-Term Liabilities			
Pension	32,446,526	27,966,120	(4,480,406)
Other Amounts	852,647	884,252	31,605
Total Liabilities	<u>35,660,912</u>	<u>30,865,181</u>	<u>(4,795,731)</u>

(continued)

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

Table 1  
Net Position  
(continued)

	Governmental Activities		Change
	2017	2016	
<u>Deferred Inflows of Resources</u>			
Pension	\$2,359,411	\$3,154,952	\$795,541
<u>Net Position</u>			
Net Investment in Capital Assets	5,768,238	5,956,510	(188,272)
Restricted	548,081	449,545	98,536
Unrestricted (Deficit)	(28,310,900)	(28,258,108)	(52,792)
Total Net Position (Deficit)	<u>(\$21,994,581)</u>	<u>(21,852,053)</u>	<u>(\$142,528)</u>

The net pension liability reported by the Educational Service Center at June 30, 2017, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

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

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

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

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

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

Pension related changes noted in the above table reflect a significant increase in deferred outflows and decrease in deferred inflows related to changes in projected and actual earnings on investments related to the net pension liability. The increase in the net pension liability represents the Educational Service Center's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

The increase in current and other assets is primarily due to an increase in cash and cash equivalents on hand at fiscal year end in the General Fund. Revenue increases included tuition and fees and rent revenue from the Northern Buckeye Education Council for space they rent in the Educational Service Center's building. Due to the renegotiated rental agreement, a significant rental payment was made in fiscal year 2017. There was also an increase in intergovernmental receivables due to additional resources for the migrant program and the 21<sup>st</sup> Century grant. The decrease in net capital assets and the investment in capital assets is the result of annual depreciation. The increase in current and other liabilities is generally personnel related costs (accrued wages and benefits related to the timing of the pay period end date and salary and benefit increases) as well as an increase in the liability for matured compensated absences (those individuals meeting severance payment criteria prior to fiscal year end).

Table 2 reflects the change in net position for fiscal year 2017 and fiscal year 2016.

Table 2  
Change in Net Position

	Governmental Activities		Change
	2017	2016	
<u>Revenues:</u>			
Program Revenues			
Charges for Services	\$13,013,606	\$12,417,043	\$596,563
Operating Grants and Contributions	5,736,775	5,656,185	80,590
Total Program Revenues	<u>18,750,381</u>	<u>18,073,228</u>	<u>677,153</u>
General Revenues			
Grants and Entitlements	641,011	634,125	6,886
Interest	8,071	24,824	(16,753)
Rent	1,512,214	200,962	1,311,252
Miscellaneous	54,449	47,130	7,319
Total General Revenues	<u>2,215,745</u>	<u>907,041</u>	<u>1,308,704</u>
Total Revenues	<u>20,966,126</u>	<u>18,980,269</u>	<u>1,985,857</u>

(continued)

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

Table 2  
Change in Net Position  
(continued)

	Governmental Activities		Change
	2017	2016	
<u>Expenses:</u>			
Instruction:			
Regular	\$1,213,902	\$1,213,408	(\$494)
Special	6,330,504	5,296,469	(1,034,035)
Support Services:			
Pupils	5,075,186	4,359,904	(715,282)
Instructional Staff	2,649,774	2,473,975	(175,799)
Board of Education	89,066	100,239	11,173
Administration	602,316	549,405	(52,911)
Fiscal	618,538	574,841	(43,697)
Business	13,484	14,100	616
Operation and Maintenance of Plant	488,465	507,939	19,474
Pupil Transportation	143,768	169,708	25,940
Central	228,880	222,516	(6,364)
Non-Instructional Services	79,722	90,343	10,621
Intergovernmental	3,575,049	2,900,382	(674,667)
Interest and Fiscal Charges	0	2,838	2,838
Total Expenses	<u>21,108,654</u>	<u>18,476,067</u>	<u>(2,632,587)</u>
Increase (Decrease) in Net Position	(142,528)	504,202	(646,730)
Net Position (Deficit) at Beginning of Year	<u>(21,852,053)</u>	<u>(22,356,255)</u>	504,202
Net Position (Deficit) at End of Year	<u><u>(\$21,994,581)</u></u>	<u><u>(\$21,852,053)</u></u>	<u><u>(\$142,528)</u></u>

Program revenues were 89 percent of total revenues for fiscal year 2017 (95 percent for fiscal year 2016) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 62 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center provides services to seventeen local, three exempted village, and three city school districts in Northwest Ohio, as well as some services to various other area school districts. Total revenues increased 10 percent due to an increase in charges for services revenue which fluctuates annually based on the needs of the school districts the Educational Service Center serves and an increase in rent revenue as mentioned previously.

Overall, program expenses increased 14 percent, similar to the increase in total revenues (based on service requests of the school districts served by the Educational Service Center).

Regular instruction costs include opportunity programs and suspension programs.

Special instruction activities include activities such as instruction of gifted, multiple disabled, hearing impaired, visual impaired, orthopedic impaired, emotional disturbed, cognitive and specific learning disabled, English as a second language, preschool disabled children, and paraprofessionals (teacher aides).

Expenses for the services of nurses, school psychologists, speech therapists, attendance officer, adapted physical education instructors, occupational therapists, physical therapists, work-study coordinators, and transition services are reflected as pupils support services.

Instructional staff support services include activities such as special education supervisors, general education consultants, gifted education coordinators, and child information management specialists.

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

Intergovernmental expenses include the Individual Disabilities Education Act Grant (IDEA-B), Early Childhood Special Education Grant (ECSE), and the Limited English Proficiency Grant (LEP). These are flow-through grant resources received and spent by the Educational Service Center on behalf of the school districts.

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction:				
Regular	\$1,213,902	\$1,213,408	(\$2,023,794)	(\$2,147,954)
Special	6,330,504	5,296,469	(1,407,293)	(1,934,950)
Support Services:				
Pupils	5,075,186	4,359,904	667,861	373,279
Instructional Staff	2,649,774	2,473,975	2,428,608	2,298,158
Board of Education	89,066	100,239	89,066	100,239
Administration	602,316	549,405	602,316	549,405
Fiscal	618,538	574,841	439,004	359,968
Business	13,484	14,100	13,484	14,100
Operation and Maintenance of Plant	488,465	507,939	488,465	507,939
Pupil Transportation	143,768	169,708	143,768	169,708
Central	228,880	222,516	18,521	28,059
Non-Instructional Services	79,722	90,343	73,390	82,843
Extracurricular Activities	0	0	(123)	0
Intergovernmental	3,575,049	2,900,382	825,000	(793)
Interest and Fiscal Charges	0	2,838	0	2,838
Total Expenses	<u>\$21,108,654</u>	<u>18,476,067</u>	<u>\$2,358,273</u>	<u>402,839</u>

For fiscal year 2017, program revenues provided for 89 percent of the costs of providing services. Funding for gifted and preschool units are provided by the State based on the training and experience of the staff employed in those positions. These units have been and continue to be funded below actual costs. The remaining costs are covered by general revenues.

Expenses for certain staff such as special education supervisors, general education consultants, and gifted education coordinators, and others are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be under funded. Some expenses within the pupils support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

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**The Educational Service Center's Funds**

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting.

Fund balance increased \$206,237 (19 percent) in the General Fund. Revenue increased for tuition and fees and rent revenue as discussed previously. Total revenues increased 12 percent. Total expenditures increased 7 percent (based on service requests).

Fund balance decreased 29 percent in the Migrant and OMEC Fund as current year grant resources were not adequate to cover current year program needs.

Revenues closely mirrored expenditures in the Title VI-B (Individual Disabilities Education Act Grant (IDEA-B)) Fund leaving no fund balance at fiscal year end.

**Capital Assets and Debt Administration**

Capital Assets - At June 30, 2017, the Educational Service Center had \$5,768,238 invested in capital assets (net of accumulated depreciation). There were no additions in fiscal year 2017. Disposals consisted of a vehicle. For further information regarding the Educational Service Center's capital assets, refer to Note 7 to the basic financial statements.

The Educational Service Center's long-term obligations consist of the net pension liability and compensated absences. For further information regarding the Educational Service Center's long-term obligations, refer to Note 14 to the basic financial statements.

**Current Issues**

For fiscal year 2017, State funding for educational service centers was established at \$25 per student which was under the State appropriation. All educational service centers were given the opportunity to apply for a high performing designation which would result in an additional \$2 per student in funding. All educational service centers applied for the high performing designation and all were awarded the additional funding. This funding was awarded in full as the total State appropriation contained enough funds for the awards. The high performing designation will continue to be a part of the Educational Service Center funding for fiscal year 2018.

Northwest Ohio Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2017  
Unaudited

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Costs for services will increase with staff moving up the salary schedules. Increased insurance premiums will also cause costs to rise as the Educational Service Center tries to maintain quality services with quality personnel. Retirements of veteran staff will mitigate some of those increases as less experienced staff are hired as replacements. Following multiple years of no salary schedule increases and a step freeze in fiscal year 2014, the Educational Service Center had a modest increase to salary schedules of 1 percent in fiscal year 2015. For fiscal year 2016, a consultant was hired to study and propose a revision to the pay schedules which was adopted in the spring of 2015. Employees were assigned to the step on the appropriate new schedule that was no less than each employee's rate of pay in fiscal year 2015. Some rates were less than the initial step on the new schedules resulting in some employee raises being greater than the 2 percent that each step represents. For 2016, a base increase of 2 percent was made to all salary schedules in addition to those staff members who moved up in steps. For 2017, another base increase of 2 percent was made to all salary schedules in addition to step movement for qualifying staff. Some staff members are paid above the top stop of the schedules and continue to have their current rate of pay frozen until the schedule catches up with their rate. Additionally, educational programming expenses associated with services to this student population continue to increase. Extended service days and hours per day for staff have been reduced where possible to help mitigate increases. Some positions are not being filled as vacancies occur.

Since the Educational Service Center charges school districts for services based on costs, charges for services will modestly increase in fiscal year 2018. School districts continue to look for ways to cut expenses including services they receive from the Educational Service Center as their operational costs increase. Since the majority of services provided are mandated, school districts can look at providing the services themselves if they believe they have the capacity to provide the services themselves at a lower cost or with staff that would otherwise have been cut at their school districts to reduce overall costs.

In the fall of 2016, the Educational Service Center and the Northern Buckeye Education Council approved a revised agreement for Northern Buckeye Education Council's use of office space which included changes to how maintenance and improvement projects are to be funded. As a result of the new agreement, the Northern Buckeye Education Council paid its obligation on the prior agreement in full. These funds were split between resources set aside for maintenance and upkeep of the building along with a disbursement to member school districts per a Board adopted operating balance policy.

### **Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Homer B. Hendricks, Chief Financial Officer, Northwest Ohio Educational Service Center, 205 Nolan Parkway, Archbold, OH 43502-0250.



Northwest Ohio Educational Service Center  
Statement of Net Position  
June 30, 2017

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$3,491,879
Accounts Receivable	58,006
Accrued Interest Receivable	3,713
Intergovernmental Receivable	653,339
Prepaid Items	24,458
Materials and Supplies Inventory	11,500
Nondepreciable Capital Assets	215,200
Depreciable Capital Assets, Net	5,553,038
Total Assets	10,011,133
 <u>Deferred Outflows of Resources:</u>	
Pension	6,014,609
 <u>Liabilities:</u>	
Accounts Payable	94,474
Accrued Wages and Benefits Payable	1,897,514
Matured Compensated Absences Payable	60,718
Intergovernmental Payable	309,033
Long-Term Liabilities:	
Due Within One Year	58,042
Due in More Than One Year	
Other Amounts Due in More Than One Year	794,605
Net Pension Liability	32,446,526
Total Liabilities	35,660,912
 <u>Deferred Inflows of Resources:</u>	
Pension	2,359,411
 <u>Net Position:</u>	
Net Investment in Capital Assets	5,768,238
Restricted For:	
Capital Projects	200,476
Migrant and OMEC	317,996
Other Purposes	29,609
Unrestricted (Deficit)	(28,310,900)
Total Net Position (Deficit)	(\$21,994,581)

See Accompanying Notes to Basic Financial Statements

Northwest Ohio Educational Service Center  
Statement of Activities  
For the Fiscal Year Ended June 30, 2017

	Program Revenues		Net (Expense) Revenue and Change in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b><u>Governmental Activities:</u></b>				
Instruction:				
Regular	\$1,213,902	\$1,362,409	\$1,875,287	\$2,023,794
Special	6,330,504	6,732,030	1,005,767	1,407,293
Support Services:				
Pupils	5,075,186	4,383,764	23,561	(667,861)
Instructional Staff	2,649,774	153,207	67,959	(2,428,608)
Board of Education	89,066	0	0	(89,066)
Administration	602,316	0	0	(602,316)
Fiscal	618,538	179,534	0	(439,004)
Business	13,484	0	0	(13,484)
Operation and Maintenance of Plant	488,465	0	0	(488,465)
Pupil Transportation	143,768	0	0	(143,768)
Central	228,880	202,539	7,820	(18,521)
Non-Instructional Services	79,722	0	6,332	(73,390)
Extracurricular Activities	0	123	0	123
Intergovernmental	3,575,049	0	2,750,049	(825,000)
Total Governmental Activities	<u>\$21,108,654</u>	<u>\$13,013,606</u>	<u>\$5,736,775</u>	<u>(2,358,273)</u>

**General Revenues:**

Grants and Entitlements not Restricted to Specific Programs	641,011
Interest	8,071
Rent	1,512,214
Miscellaneous	54,449
Total General Revenues	<u>2,215,745</u>
Change in Net Position	(142,528)
Net Position (Deficit) at Beginning of Year	<u>(21,852,053)</u>
Net Position (Deficit) at End of Year	<u><u>(\$21,994,581)</u></u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
Balance Sheet  
Governmental Funds  
June 30, 2017

	General	Migrant and OMECE	Title VI-B	Other Governmental	Total Governmental Funds
<u>Assets:</u>					
Equity in Pooled Cash and Cash Equivalents	\$3,166,837	\$91,124	\$0	\$233,918	\$3,491,879
Accounts Receivable	58,006	0	0	0	58,006
Accrued Interest Receivable	3,713	0	0	0	3,713
Intergovernmental Receivable	160,163	352,927	6,639	133,610	653,339
Interfund Receivable	29,219	0	0	0	29,219
Prepaid Items	22,354	1,357	0	747	24,458
Materials and Supplies Inventory	11,500	0	0	0	11,500
Total Assets	<u>\$3,451,792</u>	<u>\$445,408</u>	<u>\$6,639</u>	<u>\$368,275</u>	<u>\$4,272,114</u>
<u>Liabilities:</u>					
Accounts Payable	\$9,659	\$38,055	\$0	\$46,760	\$94,474
Accrued Wages and Benefits Payable	1,788,304	49,575	0	59,635	1,897,514
Matured Compensated Absences Payable	60,718	0	0	0	60,718
Intergovernmental Payable	289,624	11,521	0	7,888	309,033
Interfund Payable	0	0	0	29,219	29,219
Total Liabilities	<u>2,148,305</u>	<u>99,151</u>	<u>0</u>	<u>143,502</u>	<u>2,390,958</u>
<u>Deferred Inflows of Resources:</u>					
Unavailable Revenue	<u>2,212</u>	<u>259,224</u>	<u>6,639</u>	<u>39,215</u>	<u>307,290</u>
<u>Fund Balances:</u>					
Nonspendable	33,854	1,357	0	747	35,958
Restricted	0	85,676	0	215,468	301,144
Assigned	780,059	0	0	0	780,059
Unassigned (Deficit)	487,362	0	0	(30,657)	456,705
Total Fund Balances	<u>1,301,275</u>	<u>87,033</u>	<u>0</u>	<u>185,558</u>	<u>1,573,866</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$3,451,792</u>	<u>\$445,408</u>	<u>\$6,639</u>	<u>\$368,275</u>	<u>\$4,272,114</u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
 Reconciliation of Total Governmental Fund Balances  
 to Net Position of Governmental Activities  
 June 30, 2017

Total Governmental Fund Balances \$1,573,866

Amounts reported for governmental activities on the statement of net position are different because of the following:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,768,238

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.

Accounts Receivable	809	
Accrued Interest Receivable	1,055	
Intergovernmental Receivable	305,426	
		307,290

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated Absences Payable (852,647)

The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.

Deferred Outflows - Pension	6,014,609	
Deferred Inflows - Pension	(2,359,411)	
Net Pension Liability	(32,446,526)	
		(28,791,328)

Net Position of Governmental Activities (\$21,994,581)

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2017

	General	Migrant and OMECE	Title VI-B	Other Governmental	Total Governmental Funds
<u>Revenues:</u>					
Intergovernmental	\$689,429	\$819,499	\$2,539,024	\$2,108,643	\$6,156,595
Interest	7,898	0	0	0	7,898
Tuition and Fees	14,494,281	0	0	0	14,494,281
Customer Services	1,047,724	0	0	0	1,047,724
Rent	1,495,467	0	0	16,747	1,512,214
Gifts and Donations	6,946	0	0	6,332	13,278
Miscellaneous	57,877	0	0	0	57,877
Total Revenues	<u>17,799,622</u>	<u>819,499</u>	<u>2,539,024</u>	<u>2,131,722</u>	<u>23,289,867</u>
<u>Expenditures:</u>					
Current:					
Instruction:					
Regular	593,735	0	0	597,371	1,191,106
Special	8,224,861	49,503	0	440,425	8,714,789
Support Services:					
Pupils	4,342,207	0	0	643,696	4,985,903
Instructional Staff	1,709,901	699,456	0	181,429	2,590,786
Board of Education	88,456	0	0	0	88,456
Administration	575,911	0	0	0	575,911
Fiscal	521,140	58,338	0	26,221	605,699
Business	11,161	0	0	0	11,161
Operation and Maintenance of Plant	437,187	26,118	0	0	463,305
Pupil Transportation	59,880	13,732	0	68,317	141,929
Central	161,627	0	0	5,517	167,144
Non-Instructional Services	28,379	7,785	0	42,992	79,156
Intergovernmental	838,940	0	2,540,087	196,022	3,575,049
Total Expenditures	<u>17,593,385</u>	<u>854,932</u>	<u>2,540,087</u>	<u>2,201,990</u>	<u>23,190,394</u>
Changes in Fund Balances	206,237	(35,433)	(1,063)	(70,268)	99,473
Fund Balances at Beginning of Year	1,095,038	122,466	1,063	255,826	1,474,393
Fund Balances at End of Year	<u>\$1,301,275</u>	<u>\$87,033</u>	<u>\$0</u>	<u>\$185,558</u>	<u>\$1,573,866</u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
 Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances  
 of Governmental Funds to Statement of Activities  
 For the Fiscal Year Ended June 30, 2017

Changes in Fund Balances - Total Governmental Funds		\$99,473
<p>Amounts reported for governmental activities on the statement of activities are different because of the following:</p>		
<p>Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year.</p>		
		(188,272)
<p>Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.</p>		
Intergovernmental	207,913	
Interest	173	
Tuition and Fees	(4,429)	
Customer Services	698	
Miscellaneous	<u>(3,428)</u>	
		200,927
<p>Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
		31,605
<p>Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities.</p>		
		(1,936,385)
<p>Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows.</p>		
		<u>1,650,124</u>
Change in Net Position of Governmental Activities		<u><u>(\$142,528)</u></u>

See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
Statement of Fiduciary Assets and Liabilities  
Agency Fund  
June 30, 2017

Assets:

Equity in Pooled Cash and Cash Equivalents	<u><u>\$44,315</u></u>
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Liabilities:

Intergovernmental Payable	<u><u>\$44,315</u></u>
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See Accompanying Notes to the Basic Financial Statements

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**Note 1 - Reporting Entity**

Northwest Ohio Educational Service Center (the “Educational Service Center”) is located in Archbold, Ohio, in Fulton County. The Educational Service Center supplies supervisory, special education, administrative, and other services to seventeen local, three exempted village, and three city school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Governing Board elected from subdistricts within the four county area (Defiance, Fulton, Henry, and Williams counties). The Board consists of nine members elected for staggered four year terms. The Educational Service Center has seventeen administrators, two hundred sixty-two classified employees, and two hundred eighty-four certified employees who provide services to the local, exempted village, and city school districts.

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

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

The Educational Service Center participates in four jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Computer Association, the Northern Buckeye Education Council, the Four County Career Center, the Northwestern Ohio Educational Research Council, Inc., the Schools of Ohio Risk Sharing Authority, the Northern Buckeye Health Plan, and the Northern Buckeye Education Council Workers’ Compensation Group Rating Plan. Information about these organizations is presented in Notes 16 and 17 to the basic financial statements.



**Note 2 - Summary of Significant Accounting Policies**

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

**A. Basis of Presentation**

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

**Government-Wide Financial Statements**

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

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

**Fund Financial Statements**

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**B. Fund Accounting**

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

Governmental Funds

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

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

Migrant and Ohio Migrant Education Center (OMEC) Fund - The Migrant and OMEC Fund is used to account for grant resources received through the Ohio Department of Education and restricted to providing support for students and their teachers as students migrate with their families within Ohio looking for agricultural jobs.

Title VI-B Fund - The Title VI-B Fund is used to account for grant resources received through the Ohio Department of Education and restricted to providing support for educating handicapped students. Some of these resources are also passed through or spent on behalf of the local, exempted village, and city school districts served by the Educational Service Center.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2017. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for various payroll related deductions.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**C. Measurement Focus**

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**D. Basis of Accounting**

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

**Revenues - Exchange and Nonexchange Transactions**

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 11 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources consists of unavailable revenue and pension. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes accrued interest, intergovernmental revenue including grants, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities on page 16. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 11 to the basic financial statements.

Expenses/Expenditures

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

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

**E. Cash and Investments**

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

During fiscal year 2017, investments included mutual funds, negotiable certificates of deposit, federal agency securities, and STAR Ohio. Investments are reported at fair value or amortized cost. Fair value is based on quoted market price or current share price. 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 has adopted Governmental Accounting Standards Board (GASB) Statement No.79, “Certain External Investment Pools and Pool Participants”. The Educational Service Center measures the investment in STAR Ohio at net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption rates. However, notice must be given twenty-four hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant are combined for these purposes.

The Educational Service Center allocates interest according to State statutes. Interest revenue credited to the General Fund during fiscal year 2017 was \$7,898, which includes \$1,027 assigned from other Educational Service Center funds.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Inventory**

Inventory is stated at cost on a first-in first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

**Note 2 - Summary of Significant Accounting Policies** (continued)

**H. Capital Assets**

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

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

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

Description	Useful Lives
Land Improvements	20 years
Buildings and Building Improvements	20-50 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	8 years

**I. Interfund Assets/Liabilities**

On fund financial statements, receivables and payables resulting from short-term interfund loans or services provided are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities are eliminated on the statement of net position.

**J. Compensated Absences**

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

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

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

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

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

**L. Net Position**

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

**M. Fund Balance**

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

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

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

**Note 2 - Summary of Significant Accounting Policies** (continued)

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

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

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

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

**N. Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2017, these funds included the Title VI-B (Individual Disabilities Education Act), Early Childhood Special Education, and Limited English Proficiency special revenue funds.

**O. Pensions**

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



**Note 2 - Summary of Significant Accounting Policies** (continued)

**P. Estimates**

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

**Note 3 - Accountability**

At June 30, 2017, the Miscellaneous Federal Grants special revenue fund had a deficit fund balance of \$30,657 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**Note 4 - Deposits and Investments**

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

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

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

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

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

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 4 - Deposits and Investments** (continued)

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

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

Investments

As of June 30, 2017, the Educational Service Center had the following investments:

Measurement/Investment	Fair Value	Maturity
Fair Value- Level 1 Inputs		
Mutual Funds	\$7,424	26 days average
Fair Value- Level 2 Inputs		
Negotiable Certificate of Deposit	122,929	10/30/17
Negotiable Certificate of Deposit	124,851	4/30/18
Negotiable Certificate of Deposit	160,212	7/16/18
Negotiable Certificate of Deposit	90,317	8/27/18
Negotiable Certificate of Deposit	95,144	10/22/18
Negotiable Certificate of Deposit	117,773	6/24/19
Federal Home Loan Mortgage Corporation Notes	59,285	7/19/19
Federal National Mortgage Association Notes	59,861	4/30/18
Federal National Mortgage Association Notes	118,269	12/30/19
Federal National Mortgage Association Notes	53,534	7/27/20
Federal National Mortgage Association Notes	54,803	8/28/20
Federal National Mortgage Association Notes	118,511	9/30/20
Federal Home Loan Bank Notes	49,567	3/29/18
Federal Home Loan Bank Notes	74,194	5/16/18
Federal Home Loan Bank Notes	102,523	6/14/21
Net Value per Share		
STAR Ohio	1,137,762	46 days average
Total Investments	<u>\$2,546,959</u>	

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**Note 4 - Deposits and Investments** (continued)

The Educational Service Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Educational Service Center's recurring fair value measurements as of June 30, 2017. The Educational Service Center's investment in mutual funds measured at fair value is valued using quoted market prices (Level 1 inputs). The Educational Service Center's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data (Level 2 inputs).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the Educational Service Center.

The negotiable certificates of deposit are covered by FDIC and/or SIPC insurance. All of the federal agency securities and mutual funds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that mutual funds must be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

The Educational Service Center limits the amount it may invest in any one issuer to no more than 80 percent of its total investment portfolio. The following table indicates the percentage of investments to the Educational Service Center's total portfolio:

	Fair Value	Percentage of Portfolio
Negotiable Certificates of Deposit	\$711,226	27.9%
Federal Home Loan Mortgage Corporation	59,285	2.3
Federal National Mortgage Association	404,978	15.9
Federal Home Loan Bank	226,284	8.9

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 5 - State Funding**

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

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

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

**Note 6 - Receivables**

Receivables at June 30, 2017, consisted of accounts, accrued interest, intergovernmental, and interfund receivables. All receivables are considered collectible in full and within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Major Funds	
General Fund	
Program Costs	\$49,294
Various School Districts	72,636
Miscellaneous	38,233
Total General Fund	160,163
Migrant and OMEC	352,927
Title VI-B	6,639
Total Major Funds	519,729
Other Governmental Funds	
Alternative Education Challenge Grant	695
Early Childhood Special Education	7,932
Miscellaneous Federal Grants	124,983
Total Other Governmental Funds	133,610
Total Intergovernmental Receivables	\$653,339

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 7 - Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	Balance at 6/30/16	Additions	Reductions	Balance at 6/30/17
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$215,200	\$0	\$0	\$215,200
Depreciable Capital Assets				
Land Improvements	39,404	0	0	39,404
Buildings and Building Improvements	6,294,925	0	0	6,294,925
Furniture, Fixtures, and Equipment	622,940	0	0	622,940
Vehicles	218,399	0	(10,940)	207,459
Total Depreciable Capital Assets	7,175,668	0	(10,940)	7,164,728
Less Accumulated Depreciation				
Land Improvements	(22,239)	(1,970)	0	(24,209)
Buildings and Building Improvements	(914,222)	(135,233)	0	(1,049,455)
Furniture, Fixtures, and Equipment	(349,449)	(36,740)	0	(386,189)
Vehicles	(148,448)	(14,329)	10,940	(151,837)
Total Accumulated Depreciation	(1,434,358)	(188,272)	10,940	(1,611,690)
Depreciable Capital Assets, Net	5,741,310	(188,272)	0	5,553,038
Governmental Activities				
Capital Assets, Net	\$5,956,510	(\$188,272)	\$0	\$5,768,238

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$1,658
Special	18,509
Support Services:	
Pupils	22,601
Instructional Staff	38,533
Board of Education	185
Administration	15,848
Fiscal	7,404
Business	2,323
Operation and Maintenance of Plant	20,603
Central	60,608
Total Depreciation Expense	<u>\$188,272</u>

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**Note 8 - Interfund Assets/Liabilities**

At June 30, 2017, the General Fund had an interfund receivable from other governmental funds for for short-term loans made to those funds, in the amount of \$29,219.

**Note 9 - Risk Management**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Educational Service Center contracted for the following insurance coverage.

Coverage provided through Schools of Ohio Risk Sharing Authority is as follows:

General Liability	
Per Occurrence	\$15,000,000
Total per Year	17,000,000
Auto Coverage	
Liability	15,000,000
Uninsured Motorist	1,000,000
Commercial Property	300,000,000

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

For fiscal year 2017, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

The Educational Service Center participates in the Northern Buckeye Health Plan (Plan), a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Educational Service Center pays monthly premiums to the Northern Buckeye Education Council for the benefits offered to its employees including medical, dental, and life insurance. The Northern Buckeye Education Council is responsible for the management and operations of the Plan. The agreement for the Plan provides for additional assessments to participants if the premiums are insufficient to pay the program costs for the fiscal year. Upon withdrawal from the Plan, a participant is responsible for any claims not processed and paid and any related administrative costs.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 9 - Risk Management** (continued)

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

**Note 10 - Contractual Commitments**

At fiscal year end, the amount of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2018 are as follows:

General Fund	\$137,600
Migrant and OMEC	93,737
Other Governmental Funds	<u>76,347</u>
Total	<u><u>\$307,684</u></u>

**Note 11 - Defined Benefit Pension Plans**

**Net Pension Liability**

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

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 11 - Defined Benefit Pension Plans** (continued)

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

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

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

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

Plan Description - Educational Service Center classified employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about SERS' fiduciary net position. The report can be obtained by visiting the SERS website at [www.ohsers.org](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; Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit; Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; Age 60 with 25 years of service credit

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

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



**Note 11 - Defined Benefit Pension Plans** (continued)

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. No allocation was made to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$568,585 for fiscal year 2017. Of this amount, \$72,197 is reported as an intergovernmental payable.

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

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

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

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age sixty-five or thirty-five years of service credit and at least age sixty.

**Note 11 - Defined Benefit Pension Plans** (continued)

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

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate goes to the DCP and the remaining 2 percent is applied to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age fifty or later.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased 1 percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$1,081,539 for fiscal year 2017. Of this amount, \$144,568 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 11 - Defined Benefit Pension Plans** (continued)

Following is information related to the proportionate share and pension expense.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.13354120%	0.07361897%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.12501170%</u>	<u>0.06959882%</u>	
Change in Proportionate Share	<u>0.00852950%</u>	<u>0.00402015%</u>	
Proportionate Share of the Net Pension Liability	\$9,149,703	\$23,296,823	\$32,446,526
Pension Expense	\$755,011	\$1,181,374	\$1,936,385

At June 30, 2017, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences Between Expected and Actual Experience	\$123,408	\$941,304	\$1,064,712
Changes of Assumptions	610,793	0	610,793
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	754,718	1,934,262	2,688,980
ESC Contributions Subsequent to the Measurement Date	<u>568,585</u>	<u>1,081,539</u>	<u>1,650,124</u>
Total Deferred Outflows of Resources	<u>\$2,057,504</u>	<u>\$3,957,105</u>	<u>\$6,014,609</u>
<b>Deferred Inflows of Resources</b>			
Changes in Proportionate Share and Difference Between ESC Contributions and Proportionate Share of Contributions	<u>\$497,067</u>	<u>\$1,862,344</u>	<u>\$2,359,411</u>

\$1,650,124 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 11 - Defined Benefit Pension Plans** (continued)

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

Fiscal Year Ended June 30,	SERS	STRS	Total
2018	\$176,010	(\$87,776)	\$88,234
2019	175,465	(87,776)	87,689
2020	423,426	654,454	1,077,880
2021	216,951	534,320	751,271
Total	<u>\$991,852</u>	<u>\$1,013,222</u>	<u>\$2,005,074</u>

**Actuarial Assumptions - SERS**

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2016, compared with June 30, 2015, are presented below.

	June 30, 2016	June 30, 2015
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal	entry age normal

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 11 - Defined Benefit Pension Plans** (continued)

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used for the period after disability retirement.

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

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 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 (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 11 - Defined Benefit Pension Plans** (continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$12,113,636	\$9,149,703	\$6,668,767

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions applied to all periods included in the measurement.

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

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

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

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

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

\* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.25 percent and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and, therefore, is not a weighted average return of the individual asset classes.

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 11 - Defined Benefit Pension Plans** (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are excluded. 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, 2016. 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, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	\$30,959,585	\$23,296,823	\$16,832,832

**Changes Between Measurement Date and Report Date**

In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to the Educational Service Center's net pension liability is expected to be significant.

**Social Security**

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2017, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

**Note 12 - Postemployment Benefits**

**School Employees Retirement System (SERS)**

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health care plans from various vendors including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health care coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at [www.ohsers.org](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). The SERS Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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 may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; prorated if less than a full year of service credit was earned. For fiscal year 2017, this amount was \$23,500. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2017, the Educational Service Center's surcharge obligation was \$69,726.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2017, 2016, and 2015 was \$0, \$0, and \$33,280, respectively. The full amount has been contributed for all three fiscal years.

**State Teachers Retirement System (STRS)**

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



Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 12 - Postemployment Benefits** (continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the health care plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for postemployment health care may be deducted from employer contributions. For fiscal years ended June 30, 2017, 2016, and 2015, STRS did not allocate any employer contributions to postemployment health care.

**Note 13 - Other Employee Benefits**

**A. Compensated Absences**

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

Teachers, the superintendent, and classified employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of one hundred eighty-five days. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of forty-six and one-fourth days for all employees.

**B. Health Care Benefits**

The Educational Service Center participates in the Northern Buckeye Health Plan. Through this program, the Educational Service Center offers medical, dental, and life insurance benefits. Depending upon the coverage selected, the employees share the cost of the monthly premium with the Board.

**Note 14 - Long-Term Obligations**

Changes in the Educational Service Center's long-term obligations during fiscal year 2017 were as follows:

	Balance at 6/30/16	Additions	Reductions	Balance at 6/30/17	Amounts Due Within One Year
Governmental Activities					
Net Pension Liability					
SERS	\$7,619,990	\$1,529,713	\$0	\$9,149,703	\$0
STRS	20,346,130	2,950,693	0	23,296,823	0
Total Net Pension Liability	27,966,120	4,480,406	0	32,446,526	0
Compensated Absences Payable	884,252	0	31,605	852,647	58,042
Total Governmental Activities	\$28,850,372	\$4,480,406	\$31,605	\$33,299,173	\$58,042

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

**Note 14 - Long-Term Obligations** (continued)

There is no repayment schedule for the net pension liability; however, employer pension contributions are made from the General Fund and the Migrant and OMEC and Miscellaneous Federal Grants special revenue funds. For additional information related to the net pension liability, see Note 11 to the basic financial statements.

Compensated absences will be paid from the General Fund and the Migrant and OMEC and Miscellaneous Federal Grants special revenue funds.

**Note 15 - Fund Balance**

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

Fund Balance	General	Migrant and OMEC	Other Governmental	Total Governmental Funds
Nonspendable for:				
Prepaid Items	\$22,354	\$1,357	\$747	\$24,458
Materials and Supplies Inventory	11,500	0	0	11,500
Total Nonspendable	33,854	1,357	747	35,958
Restricted for:				
Non-Instructional Services	0	0	13,472	13,472
Permanent Improvements	0	0	200,476	200,476
Regular Instruction	0	0	1,092	1,092
Special Instruction	0	85,676	428	86,104
Total Restricted	0	85,676	215,468	301,144
Assigned for:				
Building Maintenance	648,853	0	0	648,853
Unpaid Obligations	131,206	0	0	131,206
Total Assigned	780,059	0	0	780,059
Unassigned (Deficit)	487,362	0	(30,657)	456,705
Total Fund Balance	\$1,301,275	\$87,033	\$185,558	\$1,573,866

**Note 16 - Jointly Governed Organizations**

**A. Northwest Ohio Computer Association**

The Educational Service Center is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium. NWOCA is an association of educational entities within the boundaries of Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities.

The NWOCA Assembly consists of the superintendent from each participating educational entity and a representative from the fiscal agent. The Assembly elects the governing Council of two representatives from each of the six counties in which member educational entities are located and the representative from the member educational entity serving as fiscal agent for NWOCA. The degree of control exercised by any participating educational entity is limited to its representation on the Board. During fiscal year 2017, the Educational Service Center paid \$53,216 to NWOCA for various services. Financial information can be obtained from NWOCA, 209 Nolan Parkway, Archbold, Ohio 43502.

**B. Northern Buckeye Education Council**

The Northern Buckeye Education Council (NBEC) was established in 1979 to foster cooperation among educational entities located in Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. NBEC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its member educational entities and bylaws adopted by the representatives of the member educational entities. NBEC is governed by an elected board consisting of two representatives from each of the six counties in which the member educational entities are located. The Board is elected from an assembly consisting of a representative from each participating educational entity. Financial information can be obtained from the Northern Buckeye Education Council, 209 Nolan Parkway, Archbold, Ohio 43502.

**C. Four County Career Center**

The Four County Career Center (Career Center) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center is operated under the direction of a Board consisting of five representatives from the Northwest Ohio Educational Service Center and one representative from the participating school districts elected boards. The degree of control exercised by the Educational Service Center is limited to its representation on the Board. The Career Center possesses its own budgeting and taxing authority. Financial information can be obtained from the Four County Career Center, 22-900 State Route 34, Archbold, Ohio 43502.

**Note 16 - Jointly Governed Organizations** (continued)

**D. Northwestern Ohio Educational Research Council, Inc.**

The Northwestern Ohio Educational Research Council, Inc. (NOERC) is a jointly governed organization formed to bring educational entities into a better understanding of their common educational problems, facilitate and conduct practical educational research, coordinate educational research among members, provide a means for evaluating and disseminating the results of research, serve as a repository for research and legislative materials, and provide opportunities for training. The NOERC serves a twenty-five county area in Northwest Ohio. The Board of Directors consists of superintendents from two educational service centers, two exempted village school districts, five local school districts, and five city school districts, as well as representatives from two private or parochial schools and three institutions of higher education. Each active member is entitled to one vote on all issues addressed by the Board of Directors. Financial information can be obtained from the Northwestern Ohio Educational Research Council, Inc., 441 East Market Street, Celina, Ohio 45822.

**Note 17 - Insurance Pools**

**A. Schools of Ohio Risk Sharing Authority**

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishing agreements between SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

**B. Northern Buckeye Health Plan**

The Northern Buckeye Health Plan (Plan), is a public entity shared risk pool consisting of educational entities within Defiance, Fulton, Henry, Lucas, Williams, and Wood Counties. The Plan is governed by the Northern Buckeye Education Council (NBEC) and its participating members.

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

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

Northwest Ohio Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2017

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**Notes 18 - Contingencies**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2017.

**B. Litigation**

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

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

	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.12501170%	0.13354120%	0.13811600%	0.13811600%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$9,149,703	\$7,619,990	\$6,989,972	\$8,213,315
Educational Service Center's Employee Payroll	\$3,903,329	\$4,058,536	\$3,991,588	\$4,407,519
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	234.41%	187.75%	175.12%	186.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

Amounts presented as of the measurement date which is the prior fiscal year end.

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

	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.06959882%	0.07361897%	0.07897801%	0.07897801%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$23,296,823	\$20,346,130	\$19,210,186	\$22,883,047
Educational Service Center's Employee Payroll	\$7,280,829	\$7,663,879	\$7,894,608	\$9,338,046
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	319.97%	265.48%	243.33%	245.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Amounts presented as of the measurement date which is the prior fiscal year end.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$568,585	\$546,466	\$534,915	\$522,898
Contributions in Relation to the Contractually Required Contribution	<u>(568,585)</u>	<u>(546,466)</u>	<u>(534,915)</u>	<u>(522,898)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Employee Payroll	\$4,061,321	\$3,903,329	\$4,058,536	\$3,991,588
Contributions as a Percentage of Employee Payroll	14.00%	14.00%	13.18%	13.10%



<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$577,385	\$600,385	\$562,355	\$579,986	\$422,228	\$423,624
<u>(577,385)</u>	<u>(600,385)</u>	<u>(562,355)</u>	<u>(579,986)</u>	<u>(422,228)</u>	<u>(423,624)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$4,407,519	\$4,727,441	\$4,761,685	\$4,538,232	\$4,644,972	\$4,624,716
13.10%	12.70%	11.81%	12.78%	9.09%	9.16%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$1,081,539	\$1,019,316	\$1,072,943	\$1,026,299
Contributions in Relation to the Contractually Required Contribution	<u>(1,081,539)</u>	<u>(1,019,316)</u>	<u>(1,072,943)</u>	<u>(1,026,299)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Employee Payroll	\$7,725,279	\$7,280,829	\$7,663,879	\$7,894,608
Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	13.00%

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$1,213,946	\$1,283,197	\$1,264,384	\$1,198,542	\$1,291,251	\$1,297,316
<u>(1,213,946)</u>	<u>(1,283,197)</u>	<u>(1,264,384)</u>	<u>(1,198,542)</u>	<u>(1,291,251)</u>	<u>(1,297,316)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$9,338,046	\$9,870,746	\$9,726,031	\$9,219,554	\$9,932,700	\$9,979,354
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Northwest Ohio Educational Service Center  
Notes to the Required Supplementary Information  
For the Fiscal Year Ended June 30, 2017

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**Changes in Assumptions - SERS**

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented below.

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation

Amounts reported for fiscal year 2017 use morality assumptions that are based on the RP-2014 Blue Collar Mortality Table with fully generational projections and a five year set back for both males and females. Amounts reported for fiscal year 2016 and prior use mortality assumptions based on the 1994 Group Annuity Mortality Table set back one year for both males and females. Special mortality tables were used for the period after disability retirement.

## Supplemental Section

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Northwest Ohio Educational Service Center  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$689,429	
Interest			23,057	
Tuition and Fees			14,423,342	
Customer Services			1,102,146	
Rent			1,495,467	
Gifts and Donations			6,946	
Miscellaneous			19,345	
Total Revenues			<u>17,759,732</u>	
<u>Expenditures:</u>				
Current:				
Instruction:				
Regular	\$282,464	\$657,406	603,553	\$53,853
Special	7,416,280	8,353,429	8,085,135	268,294
Support Services:				
Pupils	4,255,337	4,370,523	4,242,133	128,390
Instructional Staff	1,658,419	1,755,613	1,694,787	60,826
Board of Education	116,850	107,781	100,772	7,009
Administration	595,730	596,185	577,178	19,007
Fiscal	528,218	548,926	542,598	6,328
Business	16,500	16,500	11,161	5,339
Operation and Maintenance of Plant	530,175	522,780	447,718	75,062
Pupil Transportation	80,666	85,563	61,263	24,300
Central	172,016	174,886	162,570	12,316
Non-Instructional Services	6,120	30,500	28,379	2,121
Intergovernmental	1,000	838,940	838,940	0
Total Expenditures	<u>15,659,775</u>	<u>18,059,032</u>	<u>17,396,187</u>	<u>662,845</u>
Excess of Revenues Over (Under) Expenditures	<u>(15,659,775)</u>	<u>(18,059,032)</u>	<u>363,545</u>	<u>18,422,577</u>
<u>Other Financing Sources (Uses):</u>				
Refund of Prior Year Expenditures		610	610	0
Refund of Prior Year Receipts	(1,000)	(1,000)	0	1,000
Other Financing Sources	0	2,500	2,500	0
Advances In	0	0	2,602	2,602
Advances Out	0	(26,918)	(26,918)	0
Total Other Financing Sources (Uses)	<u>(1,000)</u>	<u>(24,808)</u>	<u>(21,206)</u>	<u>3,602</u>
Changes in Fund Balance	(15,660,775)	(18,083,840)	342,339	18,426,179
Fund Balance at Beginning of Year	2,570,302	2,570,302	2,570,302	0
Prior Year Encumbrances Appropriated	122,624	122,624	122,624	0
Fund Balance at End of Year			<u>\$3,035,265</u>	<u>\$18,426,179</u>

See Accompanying Notes to the Supplemental Section

Northwest Ohio Educational Service Center  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
Migrant and OMEC Fund  
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$944,296	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	\$74,311	\$206,265	126,425	\$79,840
Support Services:				
Instructional Staff	338,076	929,424	718,557	210,867
Fiscal	28,776	83,701	78,195	5,506
Operation and Maintenance of Plant	20,116	43,191	29,761	13,430
Pupil Transportation	14,786	36,218	20,632	15,586
Non-Instructional Services	17,826	36,558	11,474	25,084
Total Expenditures	<u>493,891</u>	<u>1,335,357</u>	<u>985,044</u>	<u>350,313</u>
Changes in Fund Balance	(493,891)	(1,335,357)	(40,748)	1,294,609
Fund Balance (Deficit) at Beginning of Year	(106,809)	(106,809)	(106,809)	0
Prior Year Encumbrances Appropriated	144,944	144,944	144,944	0
Fund Balance (Deficit) at End of Year			<u>(\$2,613)</u>	<u>\$1,294,609</u>

See Accompanying Notes to the Supplemental Section



Northwest Ohio Educational Service Center  
Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget (Non-GAAP Basis) and Actual  
Title VI-B Fund  
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental			\$2,540,078	
<u>Expenditures:</u>				
Current:				
Instruction:				
Special	\$0	\$2,524,668	2,524,668	\$0
Non-Instructional Services	1,054	23,342	15,410	7,932
Total Expenditures	<u>1,054</u>	<u>2,548,010</u>	<u>2,540,078</u>	<u>7,932</u>
Changes in Fund Balance	(1,054)	(2,548,010)	0	2,548,010
Fund Balance (Deficit) at Beginning of Year	(1,054)	(1,054)	(1,054)	0
Prior Year Encumbrances Appropriated	1,054	1,054	1,054	0
Fund Balance at End of Year			<u>\$0</u>	<u>\$2,548,010</u>

See Accompanying Notes to the Supplemental Section

**Note 1 - Budgetary Process**

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

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

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

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

**Note 2 - Budgetary Basis of Accounting**

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedules of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

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

Northwest Ohio Educational Service Center  
Notes to the Supplemental Section  
For the Fiscal Year Ended June 30, 2017

**Note 2 - Budgetary Basis of Accounting** (continued)

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

	General	Migrant and OMECE	Title VI-B
GAAP Basis	\$206,237	(\$35,433)	(\$1,063)
<u>Increase (Decrease) Due to:</u>			
Revenue Accruals:			
Accrued FY 2016, Received in Cash FY 2017	170,241	218,500	1,054
Accrued FY 2017, Not Yet Received in Cash	(221,971)	(93,703)	0
Expenditure Accruals:			
Accrued FY 2016, Paid in Cash FY 2017	(1,800,594)	(134,579)	0
Accrued FY 2017, Not Yet Paid in Cash	2,148,305	99,151	0
Unrecorded Cash Activity 2016	8,922	0	0
Unrecorded Cash Activity 2017	6,028	0	0
Prepaid Items	(11,581)	(947)	9
Materials and Supplies Inventory	(1,332)	0	0
Advances In	2,602		
Advances Out	(26,918)	0	0
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(137,600)	(93,737)	0
Budget Basis	<u>\$342,339</u>	<u>(\$40,748)</u>	<u>\$0</u>

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NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education:</i>			
Migrant Education State Grant Program	84.011		\$891,307
<u>Special Education Cluster (IDEA):</u>			
Special Education - Grants to States (IDEA, Part B)	84.027		2,540,078
Special Education - Preschool Grants (IDEA, Preschool)	84.173		<u>163,530</u>
Total Special Education Cluster (IDEA)			2,703,608
Twenty-First Century Community Learning Centers	84.287		770,293
English Language Acquisition State Grants	84.365		32,496
Migrant Education Coordination Program	84.144		<u>43,750</u>
Total U.S. Department of Education			<u><b>4,441,454</b></u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<i>Passed Through Ohio Department of Mental Health and Addiction Services:</i>			
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243	99-60202-SSHS-P-15-1451	53,877
		99-13505-SSHS-P-16-1451	79,711
		1700284	<u>454,832</u>
Total U.S. Department of Health and Human Services			<u>588,420</u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$5,029,874</b></u>

*The accompanying notes are an integral part of this schedule.*

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Northwest Ohio Educational Service Center, Fulton County, Ohio (the Center's) under programs of the federal government for the year ended June 30, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position or changes in net position of the Center.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles contained in OMB Circular A-87 Cost Principles for State, Local, and Indian Tribal Governments (codified in 2 CFR Part 225), or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE C - TRANSFERS BETWEEN PROGRAM YEARS**

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The District transferred the following amounts from 2017 to 2018 programs:

<b><u>Program Title</u></b>	<b><u>CFDA Number</u></b>	<b><u>Amt. Transferred</u></b>
Migrant Education State Grant Program	84.011	\$ 164,318
English Language Acquisition State Grants	84.365	2,067
Special Education - Grants to States (IDEA, Part B)	84.027	7,932



# Dave Yost • Auditor of State

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

Northwest Ohio Educational Service Center  
Fulton County  
205 Nolan Parkway  
Archbold, Ohio 43502-8404

To the Board of Education:

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, each major fund, and the aggregate remaining fund information of Northwest Ohio Educational Service Center, Fulton County, Ohio (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 8, 2018.

### ***Internal Control Over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246  
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***Purpose of this Report***

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

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

**Dave Yost**  
Auditor of State

Columbus, Ohio

March 8, 2018





# Dave Yost • Auditor of State

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

Northwest Ohio Educational Service Center  
Fulton County  
205 Nolan Parkway  
Archbold, Ohio 43502-8404

To the Board of Education:

### ***Report on Compliance for Each Major Federal Program***

We have audited Northwest Ohio Educational Service Center, Fulton County, Ohio's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Northwest Ohio Educational Service Center's major federal programs for the year ended June 30, 2017. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Center's major federal programs.

### ***Management's Responsibility***

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

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

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

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

### ***Opinion on each Major Federal Program***

In our opinion, the Northwest Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2017.

***Report on Internal Control Over Compliance***

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

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

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

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



**Dave Yost**  
Auditor of State

Columbus, Ohio

March 8, 2018

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER  
FULTON COUNTY**

**SCHEDULE OF FINDINGS  
2 CFR § 200.515  
JUNE 30, 2017**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material weaknesses in internal control reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unmodified
<i>(d)(1)(vi)</i>	Are there any reportable findings under 2 CFR § 200.516(a)?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Special Education Cluster (IDEA) Twenty-First Century Community Learning Centers – CFDA #84.287 Substance Abuse and Mental Health Services – Projects of Regional and National Significance – CFDA #93.243
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee under 2 CFR §200.520?	No

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

None.

**3. FINDINGS FOR FEDERAL AWARDS**

None.



Providing Quality Services – Building Valued Partnerships

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**2 CFR 200.511(b)**

**JUNE 30, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	<p><b><u>Cash Management</u></b>            Substance Abuse and Mental Health Services—CFDA #93.243: 2 C.F.R. § 200.305 (b)(1) - Grant monies were not spent within the required time</p>	Corrective action taken and finding is fully corrected.	
2016-002	<p><b><u>Cash Management</u></b>            Special Education Cluster—CFDA #84.027 and 84.173: 2 C.F.R. § 200.305 (b)(1) - Grant monies were not spent within the required time</p>	Corrective action taken and finding is fully corrected.	



# Dave Yost • Auditor of State

**NORTHWEST OHIO EDUCATIONAL SERVICE CENTER**

**FULTON 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  
MARCH 22, 2018**