FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

OHIO AUDITOR OF STATE
KEITH FABER

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY
JUNE 30, 2018 AND 2017

TABLE OF CONTENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY
JUNE 30, 2018 AND 2017

TABLE OF CONTENTS
(Continued)

TABLE OF CONTENTS
(Continued)

THIS PAGE INTENTIONALLY LEFT BLANK

OHIO AUDITOR OF STATE
KEITH FABER

INDEPENDENT AUDITOR'S REPORT

Fairfield County Educational Service Center
Fairfield County
955 Liberty Drive
Lancaster, Ohio 43130

To the Board of the 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 the Fairfield County Educational Service Center, Fairfield County, Ohio (the ESC), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities**,** each major fund, and the aggregate remaining fund information of the Fairfield County Educational Service Center, Fairfield County, Ohio, as of June 30, 2018 and 2017, and, where applicable, cash flows thereof for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary Information

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

The Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual for the General Fund, presents additional analysis and is not a required part of the basic financial statements.

The schedule is management's responsibility and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this information to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is 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 April 9, 2019 on our consideration of the ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

April 9, 2019

THIS PAGE INTENTIONALLY LEFT BLANK

The management's discussion and analysis of the Fairfield County Educational Service Center's ("the ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2018. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- The ESC's net position of governmental activities increased $4,755,861 which represents a 31.63% increase from 2017's restated net position.

- General revenues accounted for $732,278 in revenue or 6.10% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $11,264,602 or 93.90% of total revenues of $11,996,880.

- The ESC had $7,241,019 in expenses related to governmental activities; all of these expenses were offset by program specific charges for services, and grants or contributions.

- The ESC has one major governmental fund, the general fund. The general fund had $11,895,958 in revenues and $11,828,348 in expenditures. During fiscal 2018, the general fund's fund balance increased $67,610 from $2,421,549 to $2,489,159.

Using these Basic Financial Statements (BFS)

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

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

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

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

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

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

Reporting the ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

The ESC maintains one type of proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC's internal service fund accounts for a self-insurance program.

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

The ESC as a Whole

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

Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Assets		
Current and other assets	$ 4,329,775	$ 3,961,637
Capital assets, net	218,069	245,727
Total assets	4,547,844	4,207,364
Deferred outflows of resources		
Pensions	6,464,971	4,223,460
OPEB	568,855	34,224
Total deferred outflows of resources	7,033,826	4,257,684
Liabilities		
Current liabilities	2,382,636	1,880,492
Long-term liabilities:		
Due within one year	45,207	34,000
Due in more than one year:		
Net pension liability	14,657,273	17,404,549
Net OPEB liability	3,539,342	3,786,528
Other amounts	235,966	193,862
Total liabilities	20,860,424	23,299,431
Deferred inflows of resources		
Pensions	610,730	201,606
OPEB	390,644	-
Total deferred inflows of resources	1,001,374	201,606
Net position		
Investment in capital assets	218,069	245,727
Restricted	9	415,039
Unrestricted (deficit)	(10,498,206)	(15,696,755)
Total net position	$ (10,280,128)	$ (15,035,989)

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

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

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

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

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the ESC is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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

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

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

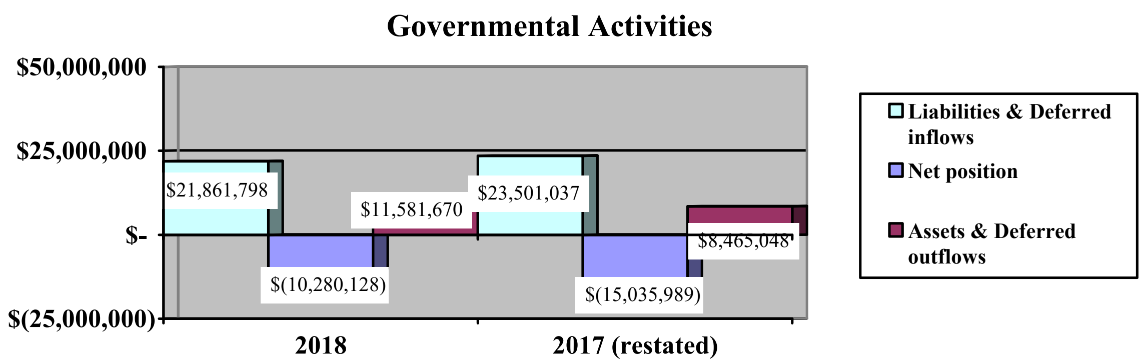
As a result of implementing GASB 75, the ESC is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($11,283,685) to ($15,035,989).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the ESC's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $10,280,128.

At year-end, capital assets represented 4.80% of total assets. Capital assets include furniture, fixtures and equipment. The ESC's investment in capital assets at June 30, 2018 was $218,069. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the ESC's net position, $9, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position was a deficit of $10,498,206.

The graph below illustrates the ESC's governmental activities assets plus deferred outflows, liabilities plus deferred inflows and net position at June 30, 2018 and 2017. The amounts at June 30, 2017 have been restated as described in Note 3.A.



THIS SECTION IS INTENTIONALLY LEFT BLANK

The table below shows the changes in net position for governmental activities between 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

Change in Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Revenues		
Program revenues:		
Charges for services and sales	$ 11,180,032	$ 9,722,957
Operating grants and contributions	84,570	237,567
General revenues:		
Grants and entitlements	676,144	691,829
Unrestricted tuition and fees	-	904,110
Investment earnings	26,947	9,679
Other	29,187	11,375
Total revenues	11,996,880	11,577,517
Expenses		
Program expenses:		
Instruction:		
Regular	199,309	304,221
Special	3,591,123	5,908,218
Other	14,076	146,477
Support services:		
Pupil	1,614,648	2,198,486
Instructional staff	370,093	919,915
Board of education	25,986	21,839
Administration	999,998	1,816,412
Fiscal	171,037	324,238
Operations and maintenance	107,489	135,584
Pupil transportation	30,468	90,415
Central	116,443	142,892
Intergovernmental	349	-
Total expenses	7,241,019	12,008,697
Change in net position	4,755,861	(431,180)
Net position at beginning of year (restated)	(15,035,989)	N/A
Net position at end of year	$ (10,280,128)	$ (15,035,989)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $34,224 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $337,454. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 7,241,019
Negative OPEB expense under GASB 75	337,454
2018 contractually required contributions	53,719
Adjusted 2018 program expenses	7,632,192
Total 2017 program expenses under GASB 45	12,008,697
Decrease in program expenses not related to OPEB	$ (4,376,505)

Governmental Activities

Net position of the ESC's governmental activities increased $4,755,861. Total governmental expenses of $7,241,019 were offset by program revenues of $11,264,602 and general revenues of $732,278. Program revenues supported all of the governmental expenses.

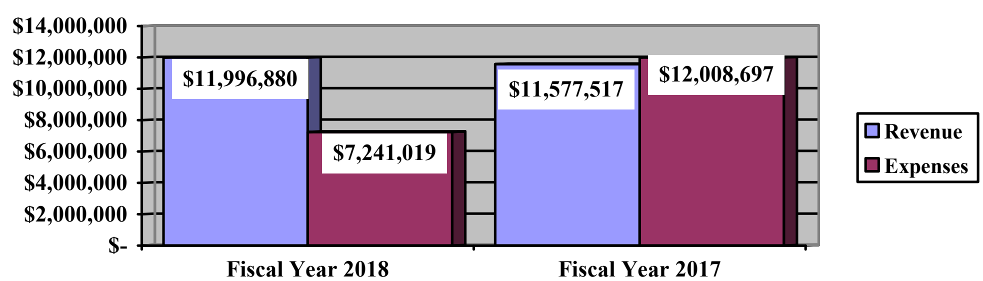
Overall, expenses of the governmental activities decreased $4,767,678 or 39.71%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employee Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the ESC reported ($3,541,698) in pension expense and ($337,454) in OPEB expense mainly due to these benefit changes by the retirement systems.

Governmental activities revenue increased approximately $419,000. This is primarily due to an increase in charges for services revenue as a result of providing more services to school districts.

The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 93.19% of total governmental revenue.

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

Governmental Activities - Revenues and Expenses



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

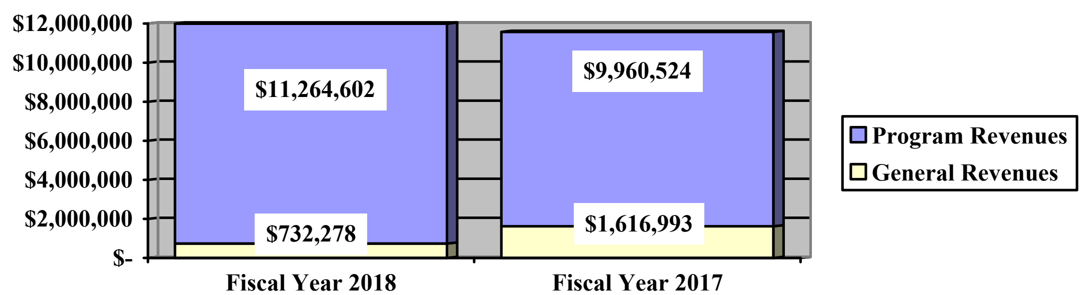
Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Program expenses				
Instruction:				
Regular	$ 199,309	$ (120,883)	$ 304,221	$ 15,996
Special	3,591,123	(1,649,880)	5,908,218	792,016
Other	14,076	14,076	146,477	95,267
Support services:				
Pupil	1,614,648	(959,440)	2,198,486	325,083
Instructional staff	370,093	(348,725)	919,915	108,816
Board of education	25,986	25,986	21,839	21,839
Administration	999,998	(716,696)	1,816,412	266,519
Fiscal	171,037	(522,770)	324,238	53,746
Operations and maintenance	107,489	107,489	135,584	135,584
Pupil transportation	30,468	30,468	90,415	90,415
Central	116,443	116,443	142,892	142,892
Intergovernmental	349	349	-	-
Total	$ 7,241,019	$ (4,023,583)	$ 12,008,697	$ 2,048,173

Program revenues supported all of governmental activities expenses. The primary support of the ESC is contracted fees for services provided to other districts.

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

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds reported a combined fund balance of $2,888,277, which is greater than last year's balance of $2,826,297. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2018 and 2017.

	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Increase (Decrease)
Major Fund:			
General	$ 2,489,159	$ 2,421,549	$ 67,610
Other governmental	399,118	404,748	(5,630)
Total	$ 2,888,277	$ 2,826,297	$ 61,980

General Fund

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

	2018 Amount	2017 Amount	Percentage Change
Revenues			
Tuition	$ 7,614,410	$ 8,386,212	(9.20) %
Services provided to other entities	3,537,376	2,240,855	57.86 %
Earnings on investments	25,922	9,679	167.82 %
Intergovernmental	677,357	690,616	(1.92) %
Other revenues	40,893	11,375	259.50 %
Total	$ 11,895,958	$ 11,338,737	4.91 %
Expenditures			
Instruction	$ 5,990,446	$ 5,756,428	4.07 %
Support services	5,837,902	5,057,084	15.44 %
Total	$ 11,828,348	$ 10,813,512	9.38 %

The general fund's revenues increased approximately $557,000 from the prior fiscal year. This increase is mainly due to the increase in services provided to other entities. Earnings on investments increased due to an increase in interest rates. The increase in the expenditures can be attributed to the ESC providing more services and wage and benefit increases.

Capital Assets

At the end of fiscal 2018, the ESC had $218,069 invested in furniture, fixtures and equipment. This entire amount is reported in governmental activities.

The following table shows fiscal 2018 balances compared to 2017.

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2018	2017
Furniture, fixtures and equipment	$ 218,069	$ 245,727

Total additions to capital assets for 2018 were $9,208. A total of $35,049 in depreciation expense was recognized for fiscal 2018. Disposals of capital assets totaled $1,817 (net of accumulated depreciation) for fiscal year 2018.

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

Debt Administration

At June 30, 2018, the ESC had no debt outstanding.

See Note 8 to the basic financial statements for additional information on the ESC's long-term obligations.

Current Financial Related Activities

Fairfield County Educational Service Center is financially stable and has been over the past several years. As indicated in the preceding information, the ESC is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation but on the rising needs of our member districts and their students. Careful financial planning and the determination to serve our districts has permitted the ESC to provide a quality education for the students of Fairfield County.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens, school districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Laura Cassell, Treasurer, Fairfield County Educational Service Center, 955 Liberty Drive, Lancaster, Ohio 43130.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2018

		Governmental Activities
Assets:		
Equity in pooled cash and cash equivalents. . .	$	3,211,226
Receivables:		
Intergovernmental		1,097,776
Prepayments		15,282
Materials and supplies inventory.		5,491
Capital assets:		
Depreciable capital assets, net.		218,069
Total assets.		4,547,844
Deferred outflows of resources:		
Pension		6,464,971
OPEB		568,855
Total deferred outflows of resources		7,033,826
Liabilities:		
Accounts payable.		14,103
Accrued wages and benefits payable		1,240,183
Intergovernmental payable		378,988
Pension and postemployment benefits payable .		166,548
Claims payable.		582,814
Long-term liabilities:		
Due within one year.		45,207
Due in more than one year:		
Net pension liability		14,657,273
Net OPEB liability		3,539,342
Other amounts due in more than one year .		235,966
Total liabilities		20,860,424
Deferred inflows of resources:		
Pension		610,730
OPEB		390,644
Total deferred inflows of resources		1,001,374
Net position:		
Investment in capital assets		218,069
Restricted for:		
Locally funded programs		9
Unrestricted (deficit)		(10,498,206)
Total net position.	$	(10,280,128)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Instruction:				
Regular	$ 199,309	$ 320,192	$ -	$ 120,883
Special	3,591,123	5,241,003	-	1,649,880
Other	14,076	-	-	(14,076)
Support services:				
Pupil	1,614,648	2,517,688	56,400	959,440
Instructional staff	370,093	718,818	-	348,725
Board of education	25,986	-	-	(25,986)
Administration	999,998	1,688,524	28,170	716,696
Fiscal	171,037	693,807	-	522,770
Operations and maintenance	107,489	-	-	(107,489)
Pupil transportation	30,468	-	-	(30,468)
Central	116,443	-	-	(116,443)
Intergovernmental	349	-	-	(349)
Totals	$ 7,241,019	$ 11,180,032	$ 84,570	4,023,583
		General revenues:		
		Grants and entitlements not restricted to specific programs		676,144
		Investment earnings		26,947
		Miscellaneous		29,187
		Total general revenues		732,278
		Change in net position		4,755,861
		Net position at beginning of year (restated)		(15,035,989)
		Net position at end of year		$ (10,280,128)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash			
and cash equivalents	$ 2,809,489	$ 400,774	$ 3,210,263
Receivables:			
Interfund loans	20,000	-	20,000
Intergovernmental	1,078,541	19,235	1,097,776
Prepayments	15,282	-	15,282
Materials and supplies inventory	5,491	-	5,491
Total assets	$ 3,928,803	$ 420,009	$ 4,348,812
Liabilities:			
Accounts payable	$ 14,103	$ -	$ 14,103
Accrued wages and benefits payable	1,239,411	772	1,240,183
Intergovernmental payable	19,690	11	19,701
Pension and postemployment benefits payable	166,440	108	166,548
Interfund loans payable	-	20,000	20,000
Total liabilities	1,439,644	20,891	1,460,535
Fund balances:			
Nonspendable:			
Materials and supplies inventory	5,491	-	5,491
Prepaids	15,282	-	15,282
Restricted:			
Other purposes	-	9	9
Assigned:			
Student and staff support	12,561	-	12,561
Capital improvements	-	400,000	400,000
Workers' compensation	60,782	-	60,782
Unassigned (deficit)	2,395,043	(891)	2,394,152
Total fund balances	2,489,159	399,118	2,888,277
Total liabilities and fund balances	$ 3,928,803	$ 420,009	$ 4,348,812

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

Total governmental fund balances		$ 2,888,277
Amounts reported for governmental activities on the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		218,069
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.		(941,138)
The net pension/OPEB liabilities are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in governmental funds.		
Deferred outflows - pension	$ 6,464,971	
Deferred inflows - pension	(610,730)	
Net pension liability	(14,657,273)	
Deferred outflows - OPEB	568,855	
Deferred inflows - OPEB	(390,644)	
Net OPEB liability	(3,539,342)	
Total		(12,164,163)
Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(281,173)
Net position of governmental activities		$ (10,280,128)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Tuition	$ 7,614,410	$ -	$ 7,614,410
Earnings on investments	25,922	-	25,922
Services provided to other entities	3,537,376	26,831	3,564,207
Other local revenues	40,893	-	40,893
Intergovernmental - intermediate	-	1,000	1,000
Intergovernmental - state	677,357	-	677,357
Intergovernmental - federal	-	83,570	83,570
Total revenues	11,895,958	111,401	12,007,359
Expenditures:			
Current:			
Instruction:			
Regular	343,934	711	344,645
Special	5,613,624	734	5,614,358
Other	32,888	-	32,888
Support services:			
Pupil	2,694,235	58,500	2,752,735
Instructional staff	769,664	912	770,576
Board of education	25,986	-	25,986
Administration	1,781,302	55,825	1,837,127
Fiscal	273,175	-	273,175
Operations and maintenance	88,236	-	88,236
Pupil transportation	58,789	-	58,789
Central	146,515	-	146,515
Intergovernmental	-	349	349
Total expenditures	11,828,348	117,031	11,945,379
Net change in fund balances	67,610	(5,630)	61,980
Fund balances at beginning of year	2,421,549	404,748	2,826,297
Fund balances at end of year	$ 2,489,159	$ 399,118	$ 2,888,277

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

Net change in fund balances - total governmental funds		$ 61,980
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital asset additions	$ 9,208	
Current year depreciation	(35,049)	
Total		(25,841)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals, trade-ins, and donations) is to decrease net position.		(1,817)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Intergovernmental		(11,504)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	1,037,965	
OPEB	53,719	
Total		1,091,684
Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities		
Pension	3,541,698	
OPEB	337,454	
Total		3,879,152
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(53,311)
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		(184,482)
Change in net position of governmental activities		$ 4,755,861

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018

	Governmental Activities - Internal Service Fund
Assets:	
Equity in pooled cash and cash equivalents	$ 963
Total assets	963
Liabilities:	
Intergovernmental payable	359,287
Claims payable	582,814
Total liabilities	942,101
Net position:	
Unrestricted (deficit)	(941,138)
Total net position (deficit)	$ (941,138)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	$ 2,563,417
Other	220,364
Total operating revenues	2,783,781
Operating expenses:	
Purchased services.	182,846
Claims	2,784,242
Other.	2,200
Total operating expenses.	2,969,288
Operating loss	(185,507)
Nonoperating revenues:	
Interest revenue	1,025
Change in net position	(184,482)
Net position (deficit) at beginning of year .	(756,656)
Net position (deficit) at end of year	$ (941,138)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	$ 2,563,417
Cash received from other operations	220,364
Cash received from SCOIC pool	259,445
Cash payments for purchased services	(182,846)
Cash payments for claims	(2,860,016)
Cash payments for other expenses	(1,389)
Net cash used in operating activities	(1,025)
Cash flows from investing activities:	
Interest received	1,025
Net cash provided by investing activities	1,025
Net change in cash and investments	-
Cash and cash equivalents at beginning of year	963
Cash and cash equivalents at end of year	$ 963
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (185,507)
Changes in assets and liabilities:	
Increase in intergovernmental payable	260,256
Decrease in claims payable	(75,774)
Net cash used in operating activities	$ (1,025)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE ESC

The Fairfield County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio. The ESC supplies supervisory, special education, administrative, and other services to the Amanda-Clearcreek, Berne Union, Bloom Carroll, Fairfield Union, Liberty Union-Thurston, Pickerington, Walnut Township Local School Districts and Lancaster City School District. Other entities outside of Fairfield County are served on an individual contract basis for various services. The ESC furnishes leadership and consulting services designed to strengthen the school districts in the area they are unable to finance or staff independently.

The ESC operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The ESC is staffed by 91 classified and 91 certified employees providing educational services to school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

<u>Metropolitan Educational Technology Association ("META")</u> - META is a jointly governed organization among school districts in Franklin, Fairfield, Madison, Pickaway and Union counties. The organization was formed for the purpose of applying modern technology, with the aid of computers and other electronic equipment, the administrative and instructional functions among member districts. Each of the member districts support META based upon a per pupil charge, dependent upon the services utilized. The governing board consists of a representative from each Franklin County district. Districts outside of Franklin County are associate members and each County selects a single district to represent them on the governing board. META is its own fiscal agent. The ESC paid $29,326 to META for services provided during fiscal year 2018. In accordance with GASB Statement No. 61, the ESC does not have an equity interest in META because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to any equity interest.

<u>South Central Ohio Insurance Consortium ("SCOIC")</u> - The SCOIC is a regional council of governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The ESC does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than medical and dental claims paid on behalf of the ESC for its employees.

<u>Eastland-Fairfield Career and Technical School District (the "Career Center")</u> - the ESC is a member of the Career Center. The Career Center has a nine-member board of education. Representatives of the Career Center consist of two ESC board members who serve for two years, then the other three ESC board members which serve for the next two years. The Career Center alternates this schedule with the Educational Service Center of Central Ohio. The ESC has no ongoing financial interest or financial responsibility to the Career Center. The ESC made no payments to the Career Center during the fiscal year.

INSURANCE PURCHASING POOL

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

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover costs of administering the program.

B. Fund Accounting

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

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

GOVERNMENTAL FUNDS

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

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

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

PROPRIETARY FUNDS

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector. The ESC has no enterprise funds. The following is a description of the ESC's internal service fund:

Internal service fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the ESC, or to other governments, on a cost-reimbursement basis. The internal service fund of the ESC accounts for a self-insurance program.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC has no trust or agency funds.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government. Internal service fund operating activities are eliminated to avoid overstatement of revenues and expenses.

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

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

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

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of this fund is included on the statement of fund net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the ESC finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the ESC's internal service fund is charges for services. Operating expenses for internal service fund includes purchased services and claims expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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. Proprietary funds also use the accrual basis of accounting.

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

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

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. See Notes 10 and 11 for deferred outflows of resources related to the ESC's net pension liability and net pension OPEB liability, respectively.

In addition to liabilities, the government-wide statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. See Notes 10 and 11 for deferred inflows of resources related to the ESC's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

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

E. Budgets

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

F. Cash and Cash Equivalents

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

During fiscal year 2018, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices.

During fiscal year 2018, the ESC invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The ESC measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Earnings on investments revenue credited to the general fund during fiscal 2018 totaled $25,922, which includes $3,450 assigned from other ESC funds.

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

An analysis of the ESC's deposits and investments at year end is provided in Note 4.

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

G. Capital Assets

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

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

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets.

Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Furniture, fixtures and equipment	5 - 10 years

H. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences," a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2018 and reduced to the maximum payment allowed by labor contracts and/or statute, plus any applicable additional salary related payments.

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

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

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

I. Accrued Liabilities and Long-Term Obligations

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

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

J. Fund Balance

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

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

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

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

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

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

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

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

K. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets," consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

L. Prepayments

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

M. Estimates

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

N. Interfund Activity

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

O. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans between governmental funds are classified as "interfund loans receivable/payable." These amounts are eliminated in the governmental activities column on the statement of net position.

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

P. Pensions/Other Postemployment Benefits (OPEB)

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

Q. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

R. Extraordinary and Special Items

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

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

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 effected the ESC's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements, and added required supplementary information.

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

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

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

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

	Governmental Activities
Net position as previously reported	$ (11,283,685)
Deferred outflows - payments subsequent to measurement date	34,224
Net OPEB liability	(3,786,528)
Restated net position at July 1, 2017	$ (15,035,989)

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

B. Deficit Fund Balance

Fund balances at June 30, 2018 included the following individual fund deficit:

Nonmajor governmental fund	Deficit
Miscellaneous federal grants	$ 891

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

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

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

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

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

6. The State Treasurer's investment pool the State Treasury Asset Reserve of Ohio (STAR Ohio);

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

A. Deposits with Financial Institutions

At June 30, 2018, the carrying amount of all ESC deposits was $1,661,292. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures," as of June 30, 2018, $1,464,478 of the ESC's bank balance of $1,714,478 was exposed to custodial risk as discussed below, while $250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC will not be able to recover deposits or collateral securities that are in the possession of an outside party. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the ESC and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2018, the ESC's financial institutions were approved for a reduced collateral rate of 50 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the ESC to a successful claim by the FDIC.

B. Investments

As of June 30, 2018, the ESC had the following investments and maturities:

		Investment Maturities
Measurement/Investment type:	Measurement value	6 months or less
Amortized cost:		
STAR Ohio	$ 1,549,934	$ 1,549,934

Interest Rate Risk: Interest rate risk arises as potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the ESC at June 30, 2018:

Measurement/Investment type:	Measurement value	% of total
Amortized cost:		
STAR Ohio	$ 1,549,934	100.00%

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and cash and cash equivalents as reported on the statement of net position as of June 30, 2018:

Cash and investments per note	
Carrying amount of deposits	$ 1,661,292
Investments	1,549,934
Total	$ 3,211,226
Cash and investments per statement of net position	
Governmental activities	$ 3,211,226

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2018, as reported on the fund statements, consist of the following interfund loans receivable/payable:

Receivable	Payable	Amount
General fund	Nonmajor governmental funds	$ 20,000

The primary purpose of the interfund balances is to cover costs in the specific nonmajor governmental funds where the revenues were not received by June 30. These interfund balances are expected to be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the statement of net position.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2018 consisted of amounts due from other governments. All receivables are considered collectible in full. A summary of the principal items of receivables reported in the statement of net position follows:

Governmental activities:	
Tuition	$ 564,727
Services provided to other entities	482,978
Grants	19,235
BWC refund	30,669
Other	167
Total intergovernmental receivable	$ 1,097,776

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

NOTE 7 - CAPITAL ASSETS

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

	Balance 06/30/17	Additions	Deductions	Balance 06/30/18
Governmental activities:				
Capital assets, being depreciated:				
Furniture, fixtures and equipment	$ 440,371	$ 9,208	$ (66,834)	$ 382,745
Total capital assets, being depreciated	440,371	9,208	(66,834)	382,745
Less: accumulated depreciation:				
Furniture, fixtures and equipment	(194,644)	(35,049)	65,017	(164,676)
Total accumulated depreciation	(194,644)	(35,049)	65,017	(164,676)
Governmental activities capital assets, net	$ 245,727	$ (25,841)	$ (1,817)	$ 218,069

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$ 4,916
Support services:	
Pupil	1,960
Instructional staff	240
Administration	8,248
Operations and maintenance	19,253
Central	432
Total depreciation expense	$ 35,049

NOTE 8 - LONG-TERM OBLIGATIONS

The long-term obligations at June 30, 2017 have been restated as described in Note 3.A. During the fiscal year 2018, the following activity occurred in governmental activities long-term obligations:

	Restated Balance 06/30/17	Additions	Reductions	Balance 06/30/18	Amounts Due in One Year
Governmental activities:					
Net pension liability	$ 17,404,549	$ -	$ (2,747,276)	$ 14,657,273	$ -
Net OPEB liability	3,786,528	78,819	(326,005)	3,539,342	-
Compensated absences	227,862	99,379	(46,068)	281,173	45,207
Total	$ 21,418,939	$ 178,198	$ (3,119,349)	$ 18,477,788	$ 45,207

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

See Notes 10 & 11 for descriptions of the ESC's net pension liability and net OPEB liability, respectively.

NOTE 9 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC has obtained risk management by traditional means of insuring through a commercial company. Coverage's provided are as follows:

Building contents	$	400,395
General liability:		
Each occurrence		1,000,000
Aggregate limit		3,000,000

Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

B. Workers' Compensation

The ESC also participates in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2). The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all entities in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP.

NOTE 9 - RISK MANAGEMENT - (Continued)

Participation in the GRP is limited to entities that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

C. Medical, Prescription and Dental Insurance

The ESC provides medical, prescription and dental insurance for its employees. Premiums are paid directly to the South Central Ohio Insurance Consortium (SCOIC), who then submits payments for actual claims to a third party administrator, who services all claims submitted by employees. The ESC was self-funded with the SCOIC effective January 1, 2002.

The SCOIC was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the SCOIC from the self-insurance fund of the ESC. The ESC has no cash balance with the fiscal agent at June 30, 2018. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the fiscal agent of the SCOIC.

The members are self-insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2018, and cash with fiscal agent for the balance of funds held by the SCOIC that covers medical, dental and pharmacy claims will be reported.

The claims liability of $582,814 reported at June 30, 2018 is based on an estimate provided by the third party administrators and requirements of Governmental Accounting Standards Board Statement No. 10 as amended by GASB Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claims adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2018	$ 658,588	$ 2,784,242	$ (2,860,016)	$ 582,814
2017	658,053	2,596,820	(2,596,285)	658,588

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 30. Final average salary is the average of the highest three years of salary.

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

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

The ESC's contractually required contribution to SERS was $361,524 for fiscal year 2018. Of this amount, $33,305 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

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

The ESC’s contractually required contribution to STRS was $676,441 for fiscal year 2018. Of this amount, $91,680 is reported as pension and postemployment benefits payable.

Net Pension Liability

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.05909520%	0.03907424%	
Proportion of the net pension liability current measurement date	0.06559150%	0.04520408%	
Change in proportionate share	0.00649630%	0.00612984%	
Proportionate share of the net pension liability	$ 3,918,947	$ 10,738,326	$ 14,657,273
Pension expense	$ 172,022	$ (3,713,720)	$ (3,541,698)

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 168,656	$ 414,665	$ 583,321
Changes of assumptions	202,651	2,348,590	2,551,241
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	598,716	1,693,728	2,292,444
ESC contributions subsequent to the measurement date	361,524	676,441	1,037,965
Total deferred outflows of resources	$ 1,331,547	$ 5,133,424	$ 6,464,971
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 86,546	$ 86,546
Net difference between projected and actual earnings on pension plan investments	18,603	354,376	372,979
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	-	151,205	151,205
Total deferred inflows of resources	$ 18,603	$ 592,127	$ 610,730

$1,037,965 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 470,246	$ 915,858	$ 1,386,104
2020	428,807	1,397,932	1,826,739
2021	143,724	999,564	1,143,288
2022	(91,357)	551,502	460,145
Total	$ 951,420	$ 3,864,856	$ 4,816,276

Actuarial Assumptions - SERS

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

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

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

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

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	$ 5,438,480	$ 3,918,947	$ 2,646,028

Actuarial Assumptions - STRS Ohio

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

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

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

For the July 1, 2016 actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the ESC's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the ESC's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
ESC's proportionate share of the net pension liability	$ 15,393,025	$ 10,738,326	$ 6,817,440

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The ESC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS’ Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS’ health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS’ health care coverage. Most retirees and dependents choosing SERS’ health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS’ website at www.ohsers.org under Employers/Audit Resources.

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Active employee members do not contribute to the Health Care Plan. The SERS Retirement Board established the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the ESC's surcharge obligation was $40,329.

The surcharge added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The ESC's contractually required contribution to SERS was $53,719 for fiscal year 2018. Of this amount, $41,563 is reported as pension and postemployment benefits payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability

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

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.05953006%	0.03907424%	
Proportion of the net OPEB liability current measurement date	0.06616320%	0.04520408%	
Change in proportionate share	0.00663314%	0.00612984%	
Proportionate share of the net OPEB liability	$ 1,775,646	$ 1,763,696	$ 3,539,342
OPEB expense	$ 153,899	$ (491,353)	$ (337,454)

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ -	$ 101,811	$ 101,811
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	132,332	280,993	413,325
ESC contributions subsequent to the measurement date	53,719	-	53,719
Total deferred outflows of resources	$ 186,051	$ 382,804	$ 568,855
Deferred inflows of resources			
Net difference between projected and actual earnings on OPEB plan investments	$ 4,689	$ 75,385	$ 80,074
Changes of assumptions	168,499	142,071	310,570
Total deferred inflows of resources	$ 173,188	$ 217,456	$ 390,644

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

$53,719 reported as deferred outflows of resources related to OPEB resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (14,277)	$ 21,276	$ 6,999
2020	(14,277)	21,276	6,999
2021	(11,129)	21,276	10,147
2022	(1,173)	21,276	20,103
2023	-	40,121	40,121
Thereafter	-	40,123	40,123
Total	$ (40,856)	$ 165,348	$ 124,492

Actuarial Assumptions - SERS

The total OPEB liability is determined by SERS' actuaries in accordance with GASB Statement No. 74, as part of their annual actuarial valuation for each retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
ESC's proportionate share of the net OPEB liability	$ 2,144,319	$ 1,775,646	$ 1,483,564

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
ESC's proportionate share of the net OPEB liability	$ 1,440,804	$ 1,775,646	$ 2,218,816

Actuarial Assumptions - STRS

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

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

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

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

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
ESC's proportionate share of the net OPEB liability	$ 2,367,734	$ 1,763,696	$ 1,286,309

	1% Decrease	Current Trend Rate	1% Increase
ESC's proportionate share of the net OPEB liability	$ 1,225,341	$ 1,763,696	$ 2,472,236

NOTE 12 - CONTINGENCIES

A. Grants

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

B. Litigation

There are no claims or lawsuits pending against the ESC that, upon ultimate disposition, would have a material effect, if any, on the financial condition of the ESC.

C. School Foundation

School district Foundation funding is based on the annualized full-time (FTE) enrollment of each student. Traditional school students must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula ODE is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. ODE has finalized the impact of enrollment adjustments to June 30, 2018. As a result of the enrollment adjustments, Foundation funding for the ESC was impacted by an immaterial amount. A portion of the ESC’s foundation receipts are determined by FTE of the member school districts.

NOTE 13 - STATE AND LOCAL FUNDING

A. State Funding

State funding for Education Service Centers (ESCs) is provided to support basic operations and statutorily mandated services. It consists of two major categories - unit funding for gifted and preschool handicapped units and a per pupil allocation.

Unit funding - Funding for an approved unit is based on a 1) a salary allowance for the teacher, psychologist, etc. in charge of the unit, 2) a non-salary unit allowance for preschool classroom units, related services, and a gifted allowance, and 3) a supplemental unit allowance for classroom units, other preschool special education units, and for gifted units.

Per pupil base funding - Ohio Revised Code 3317.11(F) provides for the State to pay ESCs $37 per pupil or $40.52 per pupil for multi-county ESCs to help support their basic operations and provision of services to school districts, community schools, chartered non-public schools and county and State run juvenile detention facilities. The Average Daily Membership (ADM) is calculated as the K-12 ADM of member districts minus the E-school ADM minus the ADM of community schools that are sponsored by another ESC plus the ADM of community schools that are sponsored by the ESC in question plus the handicapped ADM.

B. Local Funding

Approximately two-thirds of the funding for ESCs comes from the member districts they serve through deductions or transfers that the Ohio Department of Education (ODE) makes out of State foundation to the ESCs. A number of calculations comprise this deduction.

Special education extended service - Since the State stopped paying for extended service, special education extended service has become a local responsibility. It is paid at the daily rate on the minimum salary schedule, plus a fringe allowance up to a maximum number of days.

Supervisory allowance - One of the major services provided by ESCs since their inception has been supervisory services for local districts. Each city or exempted village school district that enters into an agreement for services from an ESC under Section 3313.843 of the Ohio Revised Code also is considered to be provided supervisory services by the ESC. Supervisory services are financed annually through supervisory units, the cost of which is determined by a formula in statute.

$6.50 per pupil deduction - The ODE annually deducts from each local and client school district of each ESC, pursuant to Division (E) of Section 3317.023 of the Ohio Revised Code, and pays to the ESC an amount equal to $6.50 times the school district's total student count. The Board of Education of any local or client school may agree to pay an amount in excess of $6.50 per student in total student count. If a majority of Boards of Education of local school districts within an ESCs territory approve an amount in excess of $6.50 per student, the department shall deduct the approved excess per student amount from all of the local school districts with the ESCs territory and pay the excess amount to the ESC. ESCs must notify ODE with a signed resolution of agreement of any per pupil amounts in excess of $6.50 so proper deductions can be made.

NOTE 13 - STATE AND LOCAL FUNDING - (Continued)

Service contracts - Districts may set up service contracts with ESCs to pay for services above and beyond those covered by the above described funding sources. To receive payment pursuant to such contracts, or agreements, an ESC must furnish to the State a copy of the contract or written statement that clearly indicates the payments owed and is signed by the superintendent or treasurer of the responsible school district. These deductions are included in the ESC deduction of the foundation payment form. Instead of having contract amounts deducted by the State, ESCs may bill the districts directly. ESCs can also enter into agreements under Section 3313.844 of the Ohio Revised Code to provide services to community schools.

NOTE 14 - OTHER COMMITMENTS

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

Fund	Year-End Encumbrances
General fund	$ 12,561

THIS PAGE IS INTENTIONALLY LEFT BLANK

REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.06559150%	0.05909520%	0.05263280%	0.04484000%	0.04484000%
ESC's proportionate share of the net pension liability	$ 3,918,947	$ 4,325,223	$ 3,003,279	$ 2,269,327	$ 2,666,491
ESC's covered payroll	$ 2,344,507	$ 1,994,879	$ 1,780,950	$ 1,424,936	$ 1,283,367
ESC's proportionate share of the net pension liability as a percentage of its covered payroll	167.15%	216.82%	168.63%	159.26%	207.77%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.04520408%	0.03907424%	0.04000316%	0.03792097%	0.03792097%
ESC's proportionate share of the net pension liability	$ 10,738,326	$ 13,079,326	$ 11,055,703	$ 9,223,692	$ 10,987,202
ESC's covered payroll	$ 5,158,350	$ 4,193,350	$ 4,217,386	$ 4,269,846	$ 4,225,992
ESC's proportionate share of the net pension liability as a percentage of its covered payroll	208.17%	311.91%	262.15%	216.02%	259.99%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	**2017**	**2016**	**2015**
Contractually required contribution	$ 361,524	$ 328,231	$ 279,283	$ 234,729
Contributions in relation to the contractually required contribution	(361,524)	(328,231)	(279,283)	(234,729)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 2,677,956	$ 2,344,507	$ 1,994,879	$ 1,780,948
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 197,496	$ 177,618	$ 177,441	$ 196,833	$ 164,850	$ 142,314
(197,496)	(177,618)	(177,441)	(196,833)	(164,850)	(142,314)
$ -	$ -	$ -	$ -	$ -	$ -
$ 1,424,935	$ 1,283,367	$ 1,319,264	$ 1,565,895	$ 1,217,504	$ 1,446,280
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 676,441	$ 722,169	$ 587,069	$ 590,434
Contributions in relation to the contractually required contribution	(676,441)	(722,169)	(587,069)	(590,434)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 4,831,721	$ 5,158,350	$ 4,193,350	$ 4,217,386
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 555,080	$ 549,379	$ 526,992	$ 602,472	$ 555,931	$ 542,202
(555,080)	(549,379)	(526,992)	(602,472)	(555,931)	(542,202)
$ -	$ -	$ -	$ -	$ -	$ -
$ 4,269,846	$ 4,225,992	$ 4,053,785	$ 4,634,400	$ 4,276,392	$ 4,170,785
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	2017
ESC's proportion of the net OPEB liability	0.06616320%	0.05953006%
ESC's proportionate share of the net OPEB liability	$ 1,775,646	$ 1,696,827
ESC's covered payroll	$ 2,344,507	$ 1,994,879
ESC's proportionate share of the net OPEB liability as a percentage of its covered payroll	75.74%	85.06%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TWO FISCAL YEARS

	2018	**2017**
ESC's proportion of the net OPEB liability	0.04520408%	0.03907424%
ESC's proportionate share of the net OPEB liability	$ 1,763,696	$ 2,089,701
ESC's covered payroll	$ 5,158,350	$ 4,193,350
ESC's proportionate share of the net OPEB liability as a percentage of its covered payroll	34.19%	49.83%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.30%

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

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

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 53,719	$ 34,224	$ 28,593	$ 22,348
Contributions in relation to the contractually required contribution	(53,719)	(34,224)	(28,593)	(22,348)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 2,677,956	$ 2,344,507	$ 1,994,879	$ 1,780,948
Contributions as a percentage of covered payroll	2.01%	1.46%	1.43%	1.25%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 28,583	$ 25,972	$ 36,372	$ 55,803	$ 33,989	$ 77,380
(28,583)	(25,972)	(36,372)	(55,803)	(33,989)	(77,380)
$ -	$ -	$ -	$ -	$ -	$ -
$ 1,424,935	$ 1,283,367	$ 1,319,264	$ 1,565,895	$ 1,217,504	$ 1,446,280
2.01%	2.02%	2.76%	3.56%	2.79%	5.35%

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered payroll	$ 4,831,721	$ 5,158,350	$ 4,193,350	$ 4,217,386
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014	2013	2012	2011	2010	2009
$ 39,506	$ 42,260	$ 40,538	$ 46,344	$ 42,764	$ 41,708
(39,506)	(42,260)	(40,538)	(46,344)	(42,764)	(41,708)
$ -	$ -	$ -	$ -	$ -	$ -
$ 4,269,846	$ 4,225,992	$ 4,053,785	$ 4,634,400	$ 4,276,392	$ 4,170,785
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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

THIS PAGE IS INTENTIONALLY LEFT BLANK

SUPPLEMENTARY INFORMATION

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues:				
From local sources:				
Tuition	$ 8,838,323	$ 7,735,097	$ 7,735,097	$ -
Earnings on investments	5,000	25,922	25,922	-
Services provided to other entities	4,052,652	3,458,827	3,458,827	-
Other local revenues	-	1,909	1,909	-
Intergovernmental - state	630,084	677,506	677,506	-
Total revenue	13,526,059	11,899,261	11,899,261	-
Expenditures:				
Current:				
Instruction:				
Regular	354,037	327,589	327,589	-
Special	6,902,611	5,433,512	5,433,512	-
Other	16,953	33,076	33,076	-
Support services:				
Pupil	2,990,393	2,565,795	2,565,795	-
Instructional staff	879,014	795,857	795,857	-
Board of education	24,767	25,894	25,894	-
Administration	1,895,907	1,808,404	1,808,404	-
Fiscal	261,075	274,733	274,733	-
Business	3,000	-	-	-
Operations and maintenance	154,392	95,707	95,707	-
Pupil transportation	105,509	57,183	57,183	-
Central	167,360	147,134	147,134	-
Total expenditures	13,755,018	11,564,884	11,564,884	-
Excess (deficiency) of revenues over (under) expenditures	(228,959)	334,377	334,377	-
Other financing sources (uses):				
Refund of prior year expenditures	-	22,956	22,956	-
Advances in	-	51,000	51,000	-
Advances (out)	(11,175)	(71,000)	(71,000)	-
Total other financing sources (uses)	(11,175)	2,956	2,956	-
Net change in fund balance	(240,134)	337,333	337,333	-
Fund balance at beginning of year	2,385,953	2,385,953	2,385,953	-
Prior year encumbrances appropriated	32,902	32,902	32,902	-
Fund balance at end of year	$ 2,178,721	$ 2,756,188	$ 2,756,188	$ -

SEE ACCOMPANYING BUDGETARY NOTES

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

NOTE 1 - BUDGETARY PROCESS

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's Board does follow the budgetary process for control purposes.

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

The ESC's Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all 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 statements reflect the amounts on the first appropriation 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 statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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

(d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY, OHIO

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	General Fund
Budget basis	$ 337,333
Net adjustment for revenue accruals	(42,120)
Net adjustment for expenditure accruals	(308,617)
Net adjustment for other sources/uses	(2,956)
Funds budgeted elsewhere**	60,782
Adjustment for encumbrances	23,188
GAAP basis	$ 67,610

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on a GAAP basis. This includes the workers' compensation fund.

The discussion and analysis of the Fairfield County Educational Service Center's (Educational Service Center) financial performance provides an overview and analysis 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 our basic financial statements and the notes to the basic financial statements themselves to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

- The liabilities and deferred inflows of Fairfield County Educational Service Center exceeded its assets and deferred outflows at June 30, 2017 by $11,283,685. This balance was comprised of a $1,564,876 balance investment in capital assets and net position amounts restricted for specific purposes, and a deficit balance of $12,848,561 in unrestricted net position.

- In total, net position of governmental activities decreased by $431,180, which represents a 3.97 percent decrease from 2016.

- General revenues accounted for $712,883 or 6.16 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $10,864,634 or 93.84 percent of total revenues of $11,577,517.

- The Educational Service Center had $12,008,697 in expenses related to governmental activities; only $10,864,634 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily grants and entitlements, and contractual service fees) of $712,883 were used but were not sufficient to provide for the remainder of these programs.

- The Educational Service Center recognizes two major governmental funds: the General Fund and Capital Projects Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the Educational Service Center combined. The General Fund had $11,338,737 in revenues and $10,813,512 in expenditures in fiscal year 2017.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Fairfield County Educational Service Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

This discussion and analysis is intended to serve as an introduction to the Educational Service Center's basic financial statements. The Educational Service Center's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

Reporting the Educational Service Center as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Educational Service Center's finances, in a manner similar to private-sector business. The statement of net position and 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. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position presents information on all of the Educational Service Center's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position are important because they serve as a useful indicator of whether the financial position of the Educational Service Center as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the Educational Service Center's facility conditions, required but unfunded educational programs, and other factors. Ultimately, the Educational Service Center's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the Educational Service Center's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected contractual service fees, and earned but unused vacation leave).

In both of the government-wide financial statements, the Educational Service Center's activities are shown as governmental activities. All of the Educational Service Center's programs and services are reported here including instructional services and support services. These services are funded primarily by charges for services, contractual service fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these 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 Capital Projects Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Educational Service Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Educational Service Center can be divided into one of two categories: governmental and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Educational Service Center's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The Educational Service Center's proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the Educational Service Center reports the proprietary fund using the accrual basis of accounting.

Notes to the Basic Financial Statements

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

Government-Wide Financial Analysis

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole, showing assets, deferred outflows of resources, liabilities, deferred inflows of resources and the difference between them (net position). Table 1 provides a summary of the Educational Service Center's net position for 2017 compared to fiscal year 2016:

Table 1
Net Position at Year End

	Governmental Activities	
	2017	2016
Assets:		
Current and Other Assets	$3,961,637	$4,486,633
Capital Assets, Net	245,727	62,259
Total Assets	4,207,364	4,548,892
Deferred Outflows of Resources:		
Pension	4,223,460	2,233,634
Liabilities:		
Current and Other Liabilities	1,880,492	2,619,304
Long-Term Liabilities:		
Due Within One Year	34,000	43,722
Due in More Than One Year:		
Net Pension Liability	17,404,549	14,058,982
Other Amounts	193,862	136,683
Total Liabilities	19,512,903	16,858,691
Deferred Inflows of Resources:		
Pension	201,606	776,340
Net Position:		
Investment in Capital Assets	245,727	62,259
Restricted	1,319,149	449,323
Unrestricted	(12,848,561)	(11,364,087)
Total Net Position	($11,283,685)	($10,852,505)

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

Under the new standards required by GASB Statement No. 68, the net pension liability equals the Educational Service Center's proportionate share of each plan's collective:

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

GASB notes that pension obligation, 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 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 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 knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer the employee, because all parties enter the employment exchange with notice as to law. The pension system is responsible for the administration of the plan.

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

As a result of implementing GASB Statement No. 68, the Educational Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

Capital assets, net of accumulated depreciation increased by $183,468 due to the additions of furniture, fixtures and equipment.

Current (other) liabilities decreased $738,812 due primarily to decreases in accounts payable.

Long-term liabilities increased by $3,393,024 due mostly to an increase in net pension liability.

The Educational Service Center's largest portion of net position is restricted assets. The restricted net position is subject to external restrictions on how they may be used.

The Educational Service Center's smallest portion is unrestricted. Unrestricted net position represents resources that may be used to meet the Educational Service Center's ongoing obligations to its students and creditors.

The remaining balance of $245,727 of net position is related to amounts invested in capital assets, net of related debt. The Educational Service Center used these capital assets to provide services to students; consequently, these assets are not available for future spending.

Table 2 shows the changes in net position for fiscal year 2017 and comparisons to fiscal year 2016.

Table 2

Change in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenues:		
Charges for Services and Sales	$10,627,067	$7,594,648
Operating Grants and Contributions	237,567	436,464
General Revenues:		
Unrestricted Grants and Entitlements	691,829	649,537
Unrestricted Tuition and Fees	0	908,456
Investment Earnings	9,679	2,662
Miscellaneous	11,375	125,593
Total Revenues	11,577,517	9,717,360

(Continued)

Table 2
Changes in Net Position

	2017	2016
Expenses:		
Program Expenses:		
Instruction:		
Regular	304,221	956,736
Special	5,908,218	5,062,252
Student Intervention Services	1,218	3,239
Other	145,259	93,599
Support Services:		
Pupils	2,198,486	2,030,502
Instructional Staff	919,915	1,658,994
Board of Education	21,839	23,729
Administration	1,816,412	1,636,517
Fiscal	324,238	332,368
Business	0	1,372
Operation and Maintenance of Plant	135,584	814,575
Pupil Transportation	90,415	105,353
Central	142,892	135,066
Total Expenses	12,008,697	12,854,302
Change in Net Position	(431,180)	(3,136,942)
Net Position-Beginning of Year	(10,852,505)	(7,715,563)
Net Position-End of Year	($11,283,685)	($10,852,505)

The most significant program expenses for the Educational Service Center are Special Instruction, Pupils, Administration and Instructional Staff. These programs account for 90.30 percent of the total governmental activities. Special Instruction, which accounts for 49.20 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Pupils, which represent 18.31 percent of the total cost, represent costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Administration, which represents 15.13 percent of the total, represents costs associated with the overall administrative responsibility for each building and the Educational Service Center as a whole. Instructional Staff, which represents 7.66 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students.

The majority of the funding for the most significant programs indicated above is from charges for services, operating grants and contributions, grants and entitlements that are not restricted for specific programs, and tuition and fees. These funding sources account for 99.82 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the Educational Service Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services, tuition and fees, and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Tuition and fees and charges for services made up 91.79 percent and intergovernmental revenue made up 8.03 percent of the total revenue for the governmental activities in fiscal year 2017.

The Educational Service Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2017, the Educational Service Center received $1,591,460 through the State's foundation program, which represents 13.74 percent of the total revenue for the governmental activities. The Educational Service Center relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 52.95 percent of governmental activities program expenses. Support services expenses make up 47.05 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2017 compared to fiscal year 2016. That is, it identifies the cost of these services supported by contractual service fees and unrestricted State entitlements.

Table 3

Net Cost of Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Program Expenses:				
Instruction	$6,358,916	$831	$6,115,826	($2,021,586)
Support Services	5,649,781	(1,144,894)	6,738,476	(2,801,604)
Total Expenses	$12,008,697	($1,144,063)	$12,854,302	($4,823,190)

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of $11,585,557 and expenditures of $11,085,347.

Budget Highlights - General Fund

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a cash basis for receipts, disbursements, and encumbrances. The operating fund of the Educational Service Center is the General Fund.

During the course of fiscal year 2017, the Educational Service Center amended its General Fund budget several times. The Educational Service Center uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

The Educational Service Center prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budgeted revenue was $10,944,723 representing no change from the original budgeted revenue. Actual revenues were $142,644 or 1.29 percent more than the final budgeted amount, due to the Educational Service Center receiving more primarily in miscellaneous revenue, intergovernmental, and charges for services than expected. For the General Fund, the final budgeted expenditures were $13,602,531 representing an increase of $479,098 or 3.65 percent from the original budgeted expenditures of $13,123,433. Actual expenditures were less than the final budgeted amount by $2,754,100 or 25.39 percent due primarily to the Administration, Special Instruction, and Instructional Staff expenditures being far less than anticipated.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017 the Educational Service Center had $440,371 invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of $194,644. Table 4 shows fiscal year 2017 balances compared to fiscal year 2016.

Table 4

Capital Assets & Accumulated Depreciation at Year End

	Governmental Activities	
	2017	2016
Depreciable Capital Assets:		
Furniture, Fixtures and Equipment	$440,371	$233,470
Less Accumulated Depreciation:		
Furniture, Fixtures and Equipment	194,644	171,211
Capital Assets, Net	$245,727	$62,259

More detailed information pertaining to the Educational Service Center's capital asset activity can be found in Note 6 of the notes to the basic financial statements.

Debt Administration

At June 30, 2017, the Educational Service Center had no general obligation debt outstanding.

More detailed information pertaining to the Educational Service Center's long-term debt activity can be found in Note 10 of the notes to the basic financial statements.

Current Issues

Fairfield Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Educational Service Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation but on the rising needs of our member districts and their students. Careful financial planning and the determination to serve our districts has permitted the Educational Service Center to provide a quality education for the students of Fairfield County. The current Treasurer, Laura Cassel, was hired on July 1, 2017.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Laura Cassell, Treasurer of Fairfield Educational Service Center, 955 Liberty Drive, Lancaster, Ohio 43130.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	$2,819,813
Intergovernmental Receivable	1,134,038
Materials and Supplies Inventory	7,786
Depreciable Capital Assets, Net	245,727
Total Assets	4,207,364
Deferred Outflows of Resources:	
Pension	4,223,460
Total Deferred Outflows of Resources	4,223,460
Liabilities:	
Accounts Payable	64,823
Accrued Wages and Benefits	850,013
Intergovernmental Payable	302,738
Matured Compensated Absences Payable	4,330
Claims Payable	658,588
Long-Term Liabilities:	
Due within One Year	34,000
Due in More Than One Year:	
Net Pension Liability	17,404,549
Other Amounts Due in More Than One Year	193,862
Total Liabilities	19,512,903
Deferred Inflows of Resources:	
Pension	201,606
Total Deferred Inflows of Resources	201,606
Net Position:	
Investment in Capital Assets	245,727
Restricted for:	
Capital Outlay	400,000
Other Purposes	919,149
Unrestricted (Deficit)	(12,848,561)
Total Net Position	($11,283,685)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities

For the Fiscal Year Ended June 30, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$304,221	$255,419	$32,806	($15,996)
Special	5,908,218	5,998,442	21,870	112,094
Student Intervention	1,218	0	0	(1,218)
Other	145,259	0	51,210	(94,049)
Support Services:				
Pupils	2,198,486	1,827,680	45,723	(325,083)
Instructional Staff	919,915	761,719	49,380	(108,816)
Board of Education	21,839	0	0	(21,839)
Administration	1,816,412	1,513,315	36,578	(266,519)
Fiscal	324,238	270,492	0	(53,746)
Operation and Maintenance of Plant	135,584	0	0	(135,584)
Pupil Transportation	90,415	0	0	(90,415)
Central	142,892	0	0	(142,892)
Total Governmental Activities	$12,008,697	$10,627,067	$237,567	(1,144,063)

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	691,829
Investment Earnings	9,679
Miscellaneous	11,375
Total General Revenues	712,883
Change in Net Position	(431,180)
Net Position at Beginning of Year	(10,852,505)
Net Position at End of Year	($11,283,685)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Balance Sheet
Governmental Funds
June 30, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Cash Equivalents	$2,418,850	$400,000	$0	$2,818,850
Intergovernmental Receivable	1,091,056	0	42,982	1,134,038
Materials and Supplies Inventory	7,786	0	0	7,786
Total Assets	$3,517,692	$400,000	$42,982	$3,960,674
Liabilities and Fund Balances:				
Liabilities:				
Accounts Payable	$37,271	$0	$27,552	$64,823
Accrued Wages and Benefits	850,013	0	0	850,013
Intergovernmental Payable	203,316	0	391	203,707
Matured Compensated Absences Payable	4,330	0	0	4,330
Total Liabilities	1,094,930	0	27,943	1,122,873
Deferred Inflows of Resources:				
Intergovernmental	1,213	0	10,291	11,504
Total Deferred Inflows of Resources	1,213	0	10,291	11,504
Fund Balances:				
Nonspendable	7,786	0	0	7,786
Restricted	0	0	4,748	4,748
Assigned	32,902	400,000	0	432,902
Unassigned	2,380,861	0	0	2,380,861
Total Fund Balances	2,421,549	400,000	4,748	2,826,297
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$3,517,692	$400,000	$42,982	$3,960,674

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2017

Total Governmental Funds Balances		$2,826,297
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		245,727
Some of the Service Center's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore, are deferred inflows in the funds. These receivables consist of:		
Intergovernmental revenue		11,504
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:		
Compensated absences		(227,862)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	4,223,460	
Deferred Inflows - Pension	(201,606)	
Net Pension Liability	(17,404,549)	
Total		(13,382,695)
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		(756,656)
Net Position of Governmental Activities		($11,283,685)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:				
Intergovernmental	$690,616	$0	$246,820	$937,436
Interest	9,679	0	0	9,679
Tuition and Fees	7,355,862	0	0	7,355,862
Charges for Services	3,271,205	0	0	3,271,205
Miscellaneous	11,375	0	0	11,375
Total Revenues	11,338,737	0	246,820	11,585,557
Expenditures:				
Current:				
Instruction:				
Regular	250,108	0	27,950	278,058
Special	5,473,460	0	39,304	5,512,764
Other	32,860	0	108,963	141,823
Support Services:				
Pupils	1,964,347	0	19,274	1,983,621
Instructional Staff	818,421	0	14,044	832,465
Board of Education	20,679	0	0	20,679
Administration	1,610,600	0	57,701	1,668,301
Fiscal	307,397	0	0	307,397
Operation and Maintenance of Plant	117,683	0	0	117,683
Pupil Transportation	82,532	0	0	82,532
Central	135,425	0	0	135,425
Intergovernmental	0	0	4,599	4,599
Total Expenditures	10,813,512	0	271,835	11,085,347
Net Changes in Fund Balances	525,225	0	(25,015)	500,210
Fund Balances at Beginning of Year	1,896,324	400,000	29,763	2,326,087
Fund Balances at End of Year	$2,421,549	$400,000	$4,748	$2,826,297

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	$500,210
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	184,044
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(576)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of:	
Intergovernmental revenue	(8,040)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Increase in compensated absences	(47,457)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.	1,050,400
Except for the amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(1,831,407)
The internal service funds used by management to charge the cost of insurance to individual funds and account for rotary services are not reported in the statement of activities. Governmental expenditures and the related internal service funds revenue are eliminated. The net revenue (expense) of the internal service funds is allocated among activities.	(278,354)
Change in Net Position of Governmental Activities	($431,180)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Net Position
Proprietary Fund
June 30, 2017

	Governmental Activities
	Internal Service
Assets:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	$963
Total Assets	963
Liabilities:	
Current Liabilities:	
Intergovernmental Payable	99,031
Claims Payable	658,588
Total Liabilities	757,619
Net Position:	
Unrestricted	(756,656)
Total Net Position	($756,656)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities
	Internal Service
Operating Revenues:	
Charges for Services	$2,450,737
Total Operating Revenues	2,450,737
Operating Expenses:	
Purchased Services	132,271
Claims	2,596,820
Total Operating Expenses	2,729,091
Operating Loss	(278,354)
Net Position at Beginning of Year	(478,302)
Net Position at End of Year	($756,656)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Cash Flows

Proprietary Fund

For the Fiscal Year Ended June 30, 2017

	Governmental Activities
	Internal Service
Increase (Decrease) in Cash and Cash Equivalents:	
Cash Flows from Operating Activities:	
Cash Received from Interfund Services Provided	$2,450,737
Cash Payments for Goods and Services	(132,271)
Cash Payments for Claims	(2,497,254)
Net Cash used in Operating Activities	(178,788)
Net Decrease in Cash and Cash Equivalents	(178,788)
Cash and Cash Equivalents at Beginning of Year	179,751
Cash and Cash Equivalents at End of Year	$963
Reconciliation of Operating Loss	
to Net Cash used in Operating Activities:	
Operating Loss	($278,354)
Adjustments to Reconcile Operating Loss	
to Net Cash used in Operating Activities:	
Increase in Liabilities:	
Intergovernmental Payable	99,031
Claims Payable	535
Net Cash used in Operating Activities	($178,788)

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

Description of the Educational Service Center

The Fairfield County Educational Service Center (the "Educational Service Center") is located in Lancaster, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Amanda-Clearcreek, Berne Union, Bloom Carroll, Fairfield Union, Liberty Union-Thurston, Pickerington, Walnut Township Local School Districts and Lancaster City School District. Other entities outside Fairfield County are served on an individual contract basis for various services. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Fairfield County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 93 classified and 101 certified employees providing educational service to school districts.

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that 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 Fairfield County Educational Service Center, this includes general operations and student related activities.

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

The Educational Service Center is associated with four organizations. Three are jointly governed organizations, and one is an insurance purchasing pool. These organizations are the Metropolitan Educational Technology Association (META), the South Central Ohio Insurance Consortium, Eastland-Fairfield Career and Technical Schools and the Ohio School Boards Association Worker's Compensation Group Rating Plan. Information about these organizations is presented in Note 13 and Note 14 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the 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. The more significant of the Educational Service Center's accounting policies are described below.

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. The statements distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. The Educational Service Center has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the Educational Service Center at 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, grants and contributions that are restricted to meeting the operational or capital 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 business segment or governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements

During the year, the Educational Service Center segregates transactions related to certain 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 rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

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 self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: governmental and proprietary.

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

Governmental Funds

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

The following are the Educational Service Center's major governmental funds:

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

***Capital Projects Fund*-** This fund is used by the District to accumulate money for one or more capital projects.

The other governmental funds of the Educational Service Center accounts for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

Proprietary Fund

The proprietary fund focus is on the determination of the change in net position, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center, or to other governments, on a cost reimbursement basis. The internal service fund of the Educational Service Center accounts for a self-insurance program which provides medical and dental benefits to employees.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using the 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.

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

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of 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 a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

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

Expenses/Expenditures

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

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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

During fiscal year 2017, investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio, is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School District measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $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 will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to $9,679, which includes $1,717 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with original maturities 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.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

G. Capital Assets

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

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

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

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

Description	Estimated Lives
Furniture, Fixtures and Equipment	5 - 10 years

H. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payments 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 classified and certified employees and administrators who have at least 10 years of service with the Educational Service Center.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

I. Accrued Liabilities and Long-Term Liabilities

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

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

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

J. Net Position

Net Position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component Investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net position restricted for other purposes represents balances in special revenue funds which are restricted as to use per grant agreement.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

The Educational Service Center reports $415,039 at fiscal year-end in restricted net position, none of which is restricted by enabling legislation.

K. Pensions

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

L. Fund Balance

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

> ***Nonspendable*** – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.
>
> ***Restricted*** – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.
>
> ***Committed*** – amounts that can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the Board of Education – the Educational Service Center's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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

Assigned – amounts constrained by the Educational Service Center's "intent" to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amount to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Educational Service Center considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the Educational Service Center considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

M. Interfund Transactions

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

N. 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 on the financial statements and accompanying notes. Actual results may differ from those estimates.

O. Budgetary Process

The Educational Service Center's budget is prepared in accordance with the Ohio Revised Code, which only requires that the Educational Service Center adopt a budget for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. The annual appropriation resolution is approved by the Board. Any revisions that alter the total of any fund appropriation must be approved by the Board. During the year, several supplemental appropriations were approved. The budget amounts in the budgetary comparisons, represent the original budgeted receipts, the final budgeted receipts, the original appropriations, and the final appropriations as amended throughout the year.

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources include a deferred charge on refunding pension reported in the government-wide statement of net position. The deferred outflows of resources related to pension are explained in Note 8.

In addition to the liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include pension. Deferred inflows of resources related to pension plans are reported on the government-wide statement of net position. (See Note 8)

NOTE 3 - NEW GASB PRONOUNCEMENTS

For fiscal year 2017, the Educational Service Center implemented GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", GASB Statement No. 77, "Tax Abatement Disclosures", GASB Statement No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans", GASB Statement No. 80, "Blending Requirements for Certain Component Units", and GASB Statement No. 82, "Pension Issues." The implementation of GASB Statements Nos. 74, 77, 78, 80 and 82 had no effect on the prior period fund balances of the Educational Service Center.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

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

Inactive deposits are public deposits that the Board has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must be either 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 moneys. Interim moneys are those moneys 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 accounts including passbook accounts.

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, “Deposit and Investment Risk Disclosures.”

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the Educational Service Center’s deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Educational Service Center. The Educational Service Center’s investment policy does not address custodial credit risk for deposits.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

At June 30, 2017, the carrying amount of all Educational Service Center deposits was $1,292,221. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2017, $250,000 of the Educational Service Center's bank balance of $1,339,651 was covered by Federal Deposit Insurance. The remaining balance of $1,089,651 was collateralized with securities held by the financial institution or its agency in the Educational Service Center's name.

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

Investment Type	Fair Value	6 Months or Less
STAROhio	$1,527,592	$1,527,592
Totals	$1,527,592	$1,527,592

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Credit risk is the risk that an issue or other counter party to an investment will not fulfill its obligations. The Educational Service Center's investment policy does not address credit risk. Standard and Poor's has assigned STAROhio an "AAAm" money market rating.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the Educational Service Center will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Educational Service Center policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the Educational Service Center or not.

For the fiscal year 2017, Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," was effective. These GASB pronouncements had no effect on beginning net position. Accordingly, the Educational Service Center has categorized 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. All of the Educational Service Center's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

The classification cash and cash equivalents, and investments are reported as equity in pooled cash and cash equivalents based on criteria set forth in GASB Statement No. 9. A reconciliation between the equity in pooled cash and cash equivalents on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	$2,819,813	$0
Investments:		
STAR Ohio	(1,527,592)	1,527,592
GASB Statement No. 3	$1,292,221	$1,527,592

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017 consist of intergovernmental. All receivables are considered collectible in full.

The principal items that make up intergovernmental receivable follows:

Governmental Activities:	
General Fund:	
Tuition and Fees	$1,091,056
Nonmajor Funds:	
Alternative Schools	7,904
Miscellaneous State Grants	35,078
Total Intergovernmental Receivable	$1,134,038

NOTE 6 - CAPITAL ASSETS

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

	Balance at July 1, 2016	Additions	Deletions	Balance at June 30, 2017
Depreciable Capital Assets:				
Furniture, Fixtures and Equipment	$233,470	$218,049	($11,148)	$440,371
Total Depreciable Capital Assets	233,470	218,049	(11,148)	440,371
Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(171,211)	(34,005)	10,572	(194,644)
Total Accumulated Depreciation	(171,211)	(34,005)	10,572	(194,644)
Total Net Capital Assets	$62,259	$184,044	($576)	$245,727

NOTE 6 - <u>CAPITAL ASSETS</u> - (Continued)

Depreciation expense was charged to governmental functions as follow:

Instruction:	
Special	$4,174
Support Services:	
Pupils	1,668
Instructional Staff	220
Administration	9,610
Operation and Maintenance of Plant	17,901
Central	432
Total Depreciation Expense	$34,005

NOTE 7 - <u>RISK MANAGEMENT</u>

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 through commercial carriers. Coverage's provided are as follows:

Building Contents	$400,395
General Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

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

For fiscal year 2017, the Educational Service Center participated in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

NOTE 7 - <u>RISK MANAGEMENT</u> **-** (Continued)

The Educational Service Center provides medical, prescription and dental insurance for its employees. Premiums are paid directly to the South Central Ohio Insurance Consortium (SCOIC), who then submits payments for actual claims to a third party administrator, who services all claims submitted by employees.

The Educational Service Center was self funded with the South Central Ohio Insurance Consortium effective January 1, 2002.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund from the Self Insurance Fund of the Educational Service Center. The Educational Service Center had no cash balance with the fiscal agent at June 30, 2017. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium.

The members are self insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2017, and cash with fiscal agent for the balance of funds held by the Consortium that covers medical, dental and pharmacy claims will be reported.

The claims liability of $658,588 reported at June 30, 2017 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 as amended by GASB Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2016	$300,822	$2,333,163	$1,975,932	$658,053
2017	658,053	2,596,820	2,596,285	658,588

NOTE 8 - <u>DEFINED BENEFIT PENSION PLANS</u>

<u>Net Pension Liability</u>

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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.

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 these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability.

Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit Age 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS **-** (Continued)

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the 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. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was $328,231 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 65 with five years of qualifying service credit, or age 55 with 25 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2017, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS **-** (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 65 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and was increased one percent again on July 1, 2016 when it reached 14 percent. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was $722,169 for fiscal year 2017. Of this amount $203,707 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 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. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$4,325,223	$13,079,326	$17,404,549
Proportion of the Net Pension Liability	0.05909520%	0.03907424%	
Pension Expense	$738,953	$1,092,454	$1,831,407

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and actual Experience	$58,337	$528,466	$586,803
Net Difference between Projected and Actual Investment	356,769	1,085,937	1,442,706
Change in Assumptions	288,732	0	288,732
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	497,649	357,170	854,819
Educational Service Center Contributions Subsequent to the Measurement Date	328,231	722,169	1,050,400
Total Deferred Outflows of Resources	$1,529,718	$2,693,742	$4,223,460
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$0	$201,606	$201,606
Total Deferred Inflows of Resources	$0	$201,606	$201,606

$1,050,400 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 year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2018	$382,984	$324,262	$707,246
2019	382,728	324,262	706,990
2020	333,218	740,971	1,074,189
2021	102,557	380,472	483,029
Total	$1,201,487	$1,769,967	$2,971,454

Actuarial Assumptions - SERS

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

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Wage Inflation	3.0 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Assets	15.00	5.00
Multi-Asset Strategies	10.00	3.00
Total	100.00 %	

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

Sensitivity of the 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 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center 's proportionate share of the net pension liability	$5,726,326	$4,325,223	$3,152,442

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

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

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

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

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Asset Class	Target Allocation	Long-Term Expected Real 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
Total	100.00 %	

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 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.

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 not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 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	$17,381,361	$13,079,326	$9,450,305

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 Educational Service Center's net pension liability is expected to be significant.

NOTE 9 - POSTEMPLOYMENT BENEFITS

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2017, the health care allocation is 0 percent. An addition health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017 the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contributions assigned to health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $34,224, $28,593 and $22,348, respectively.

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.

The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

State Teachers Retirement System

Plan Description – State Teachers Retirement System of Ohio (STRS Ohio) administers a pension plan that is comprised of: a Defined Benefits Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefits Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $0, $0 and $0.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

NOTE 10 - LONG-TERM LIABILITIES

The changes in the Educational Service Center's long-term liabilities during fiscal year 2017 were as follows:

	Balance Outstanding at July 1, 2016	Additions	Deductions	Balance Outstanding at June 30, 2017	Amount Due In One Year
Governmental Activities:					
Net Pension Liability					
STRS	$11,055,703	$2,023,623	$0	$13,079,326	$0
SERS	3,003,279	1,321,944	0	4,325,223	0
Total Net Pension Liability	14,058,982	3,345,567	0	17,404,549	0
Compensated Absences Payable	180,405	166,835	119,378	227,862	34,000
Total Governmental Activities Long-Term Liabilities	$14,239,387	$3,512,402	$119,378	$17,632,411	$34,000

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the fund from which the employee is paid.

NOTE 11 – FUND BALANCES

Fund balance is classified as non-spendable, 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 the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:				
Inventory	$7,786	$0	$0	$7,786
Restricted:				
State Grants	0	0	4,748	4,748
Assigned:				
Encumbrances:				
Special	13,450	0	0	13,450
Pupils	4,613	0	0	4,613
Instructional Staff	1,683	0	0	1,683
Administration	1,315	0	0	1,315
Fiscal	5,914	0	0	5,914
Operation and Maintenance of Plant	5,320	0	0	5,320
Pupil Transportation	607	0	0	607
Capital Projects	0	400,000	0	400,000
Total Assigned	32,902	400,000	0	432,902
Unassigned	2,380,861	0	0	2,380,861
Total Fund Balances	$2,421,549	$400,000	$4,748	$2,826,297

NOTE 12 – ENCUMBRANCE COMMITMENTS

At June 30, 2017, the Educational Service Center had encumbrance commitments in the Governmental Funds as follows:

Fund	
General Fund	$32,902
Nonmajor Funds:	
Miscellaneous State Grants	28,552
Total	$61,454

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association (META)

META is a jointly governed organization among school districts in Franklin, Fairfield, Madison, Pickaway and Union counties. The organization was formed for the purpose of applying modern technology, with the aid of computers and other electronic equipment, the administrative and instructional functions among member districts. Each of the member districts support META based upon a per pupil charge, dependent upon services utilized. The governing board consists of a representative from each Franklin County district. Districts outside of Franklin County are associate members and each County selects a single district to represent them on the governing board. META is its own fiscal agent. The Educational Service Center paid $8,000 to META for services provided during fiscal year 2017. In accordance with GASB Statement No. 61, the Educational Service Center does not have any equity interest in META because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to any equity interest.

South Central Ohio Insurance Consortium

The South Central Ohio Insurance Consortium (SCOIC) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The Educational Service Center does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than medical and dental claims paid on behalf of the Educational Service Center for its employees.

Eastland -Fairfield Career and Technical School District

The Fairfield County Educational Service Center is a member of the Eastland-Fairfield Career and Technical School District. The Eastland-Fairfield Career and Technical School District has a nine-member board of education. Representatives of the Eastland-Fairfield Career and Technical School District consist of two Educational Service Centers board members who serve for two years, then the other three Educational Service Center board members which serve for the next two years. Eastland-Fairfield Career and Technical School District alternates this schedule with the Franklin County Educational Service Center. The Fairfield County Educational Service Center has no ongoing financial interest or financial responsibility to the Eastland-Fairfield Career and Technical School District. The Educational Service Center made no payments to the Eastland-Fairfield Career and Technical School District during the year.

NOTE 14 - INSURANCE PURCHASING POOL

The Educational Service Center participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Worker's Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover costs of administering the program.

NOTE 15 – 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 of conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2017.

B. School Foundation

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Educational Service Center, which can extend past the fiscal year end. The Ohio Department of Education finalized the foundation funding on December 14, 2017 and as a result there was no material impact to state foundation funding as it relates to the educational service center.

NOTE 16 – SUBSEQUENT EVENT

The Educational Service Center hired a new treasurer effective July 1, 2017.

FAIRFIELD EDUCATIONAL SERVICE CENTER

Schedule of the Educational Service Center's Proportionate Share of Net Pension Liablity
Last Four Fiscal Years (1)

	2016	2015	2014	2013
School Employees Retirement System of Ohio				
Educational Service Center's Proportion of the Net Pension Liability	0.05909520%	0.05263280%	0.04484000%	0.04484000%
Educational Service Center's Proportionate Share of the Net Pension Liability	$4,325,223	$3,003,279	$2,269,327	$2,666,491
Educational Service Center's Covered-Employee Payroll	$1,994,879	$1,780,950	$1,424,936	$1,283,367
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	216.82%	168.63%	159.26%	207.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System of Ohio				
Educational Service Center's Proportion of the Net Pension Liability	0.03907424%	0.04000316%	0.03792097%	0.03792097%
Educational Service Center's Proportionate Share of the Net Pension Liability	$13,079,326	$11,055,703	$9,223,692	$10,987,202
Educational Service Center's Covered-Employee Payroll	$4,193,350	$4,217,386	$4,269,846	$4,225,992
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	311.91%	262.15%	216.02%	259.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.71%	69.30%

(1) Information prior to 2013 is not available.

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

See accompanying notes to the required supplementary information.

FAIRFIELD EDUCATIONAL SERVICE CENTER

Schedule of the Educational Service Center's Pension Contributions

Last Five Fiscal Years (1)

	2017	2016	2015	2014	2013
School Employees Retirement System of Ohio					
Contractually Required Contributions	$328,231	$279,283	$234,729	$197,496	$177,618
Contributions in Relation to the Contractually Required Contributions	(328,231)	(279,283)	(234,729)	(197,496)	(177,618)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0
Educational Service Center Covered-Employee Payroll	$2,344,507	$1,994,879	$1,780,950	$1,424,936	$1,283,367
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%
State Teachers Retirement System of Ohio					
Contractually Required Contributions	$722,169	$587,069	$590,434	$555,080	$549,379
Contributions in Relation to the Contractually Required Contributions	(722,169)	(587,069)	(590,434)	(555,080)	(549,379)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0
Educational Service Center Covered-Employee Payroll	$5,158,350	$4,193,350	$4,217,386	$4,269,846	$4,225,992
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available.

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

See accompanying notes to the required supplementary information.

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017.

Changes in assumption: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. See the notes to the basic financial statements for the methods and assumptions in this calculation.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Intergovernmental	$635,794	$635,794	$690,616	$54,822
Interest	2,000	2,000	9,679	7,679
Tuition and Fees	7,471,981	7,471,981	7,182,551	(289,430)
Charges for Services	2,829,248	2,829,248	3,194,347	365,099
Miscellaneous	5,700	5,700	11,375	5,675
Total Revenues	10,944,723	10,944,723	11,088,568	143,845
Expenditures:				
Current:				
Instruction:				
Regular	261,797	261,845	233,501	28,344
Special	6,034,441	6,205,836	5,528,378	677,458
Other	0	47,789	32,834	14,955
Support Services:				
Pupils	2,042,718	2,150,828	1,983,921	166,907
Instructional Staff	1,362,231	1,384,858	827,174	557,684
Board of Education	42,562	43,193	20,673	22,520
Administration	2,582,211	2,690,556	1,609,185	1,081,371
Fiscal	335,052	349,888	315,271	34,617
Business	4,000	4,000	0	4,000
Operation and Maintenance of Plant	163,300	167,675	117,972	49,703
Pupil Transportation	123,833	123,833	85,138	38,695
Central	171,288	172,230	127,284	44,946
Total Expenditures	13,123,433	13,602,531	10,881,331	2,721,200
Excess of Revenues Over (Under) Expenditures	(2,178,710)	(2,657,808)	207,237	2,865,045
Fund Balance at Beginning of Year	2,176,600	2,176,600	2,176,600	0
Prior Year Encumbrances Appropriated	2,116	2,116	2,116	0
Fund Balance at End of Year	$6	($479,092)	$2,385,953	$2,865,045

See accompanying note to the supplementary information

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balance

	General
Budget Basis	$207,237
Adjustments:	
Revenue Accruals	250,169
Expenditure Accruals	34,917
Encumbrances	32,902
GAAP Basis	$525,225

THIS PAGE INTENTIONALLY LEFT BLANK.

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

Fairfield County Educational Service Center
Fairfield County
955 Liberty Drive
Lancaster, Ohio 43130

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 the Fairfield County Educational Service Center, Fairfield County, (the ESC) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements and have issued our report thereon dated April 9, 2019, wherein we noted, during 2018, the ESC adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

ESC*'s Response to Finding*

The ESC's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not subject the ESC's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Keith Faber
Auditor of State

Columbus, Ohio

April 9, 2019

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
FAIRFIELD COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2018 AND 2017

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

FINDING NUMBER 2018-001

Material Weakness: Accurate Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16. Governmental Accounting Standards Board (GASB) Cod. 1100 paragraph .101 states a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

We identified a material misstatement to reclassify Tuition general revenue as Charges for Services program revenue in the General fund and on the Statement of Activities in the amounts of $1,030,350 and $904,110 respectively, for the year ended June 30 2017. These adjustments were applied to the ESC's financial statements.

In addition to the adjustments listed above, we also identified additional misstatements ranging from $23,259 to $400,000 for the years ended June 30, 2018 and 2017 that we have brought to the ESC's attention.

Sound financial reporting is the responsibility of the Treasurer and the Board of Education and is essential to ensure the information provided to the readers of the financial statements is complete and accurate. The existence of misclassifications indicate controls over financial statement presentation may not be functioning as intended.

We recommend the ESC revisit its policies and procedures to enhance controls over financial reporting to help ensure information is accurately presented in the financial statements.

Official's Response: See Corrective Action Plan.

Fairfield County Educational Service Center

"Quality Service on a Personal Level"

955 Liberty Drive
Lancaster, OH 43130
Telephone: (740) 653-3193
Marie C. Ward, Ph.D., Superintendent

CORRECTIVE ACTION PLAN
JUNE 30, 2018 AND 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	On July 1, 2017, prior to the completion of the current audit, the incoming ESC Treasurer detected and corrected the misstatement related to the reporting period July 1, 2017 through June 30, 2018. The finding is restricted to the reporting period July 1, 2016 through June 30, 2017. The incoming ESC Treasurer reviewed and restructured the ESC's accounts to properly account for all inflows and outflows of funds. This corrective action made by the incoming ESC Treasurer allowed inflows and outflows to be clearly posted in the proper accounts. Furthermore, accounts are continuously reviewed by the ESC Treasurer to ensure proper posting of revenues and expenditures.	6/30/2018	Laura Cassell, Treasurer/CFO

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

FAIRFIELD COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 14, 2019

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370
www.ohioauditor.gov