HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2017

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

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INDEPENDENT AUDITOR'S REPORT

Hamilton County Educational Service Center
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231

To the Governing Body:

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

The 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 January 10, 2018, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Dave Yost
Auditor of State

Columbus, Ohio

January 10, 2018

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

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net Position of governmental activities decreased $3,026,236 which represents a 6% decrease from 2016.

- General revenues accounted for $3,237,871 in revenue or 6% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $51,986,970 or 94% of total revenues of $55,224,841.

- The Center had $58,251,077 in expenses related to governmental activities; $51,986,970 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $3,237,871 were also used to provide for these programs.

Overview of the Financial Statements

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 Center 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 Center, presenting both an aggregate view of the Center'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 Center's most significant funds with all other nonmajor funds presented in total in one column. Major funds are General, Title VI-B Special Education, Head Start, and Capital Projects.

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Government-wide Financial Statements answers this question. These statements include *all assets and deferred outflows,* and *liabilities and deferred inflows* using the accrual basis of accounting 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.

These two statements report the Center's *net position* and changes in the net position. This change in net position is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

In the Government-wide Financial Statements, the Center presents:

- Governmental Activities – All of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services, and interest and fiscal charges.

Fund Financial Statements

The analysis of the Center's major funds begins on the balance sheet. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

Governmental Funds All of the Center'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 statements provide a detailed *short-term view* of the Center'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 financial statements.

Fiduciary Funds Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2017 compared to 2016:

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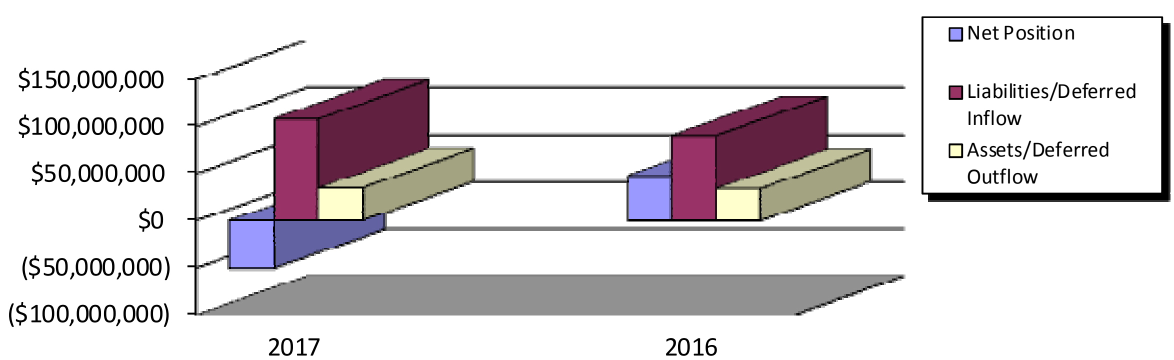
Table 1
Net Position

	Governmental Activities	
	2017	2016
Assets:		
Current and Other Assets	$31,732,252	$30,676,682
Capital Assets	2,865,990	3,008,694
Total Assets	34,598,242	33,685,376
Deferred Outflows of Resources:		
Pension	22,771,813	13,771,694
Total Deferred Outflows of Resources	22,771,813	13,771,694
Liabilities:		
Other Liabilities	5,883,734	6,569,038
Long-Term Liabilities	101,923,248	83,592,015
Total Liabilities	107,806,982	90,161,053
Deferred Inflows of Resources:		
Pension	0	4,706,708
Total Deferred Inflows of Resources	0	4,706,708
Net Position:		
Net Investment in Capital Assets	986,990	1,073,694
Restricted	1,926,481	3,072,789
Unrestricted	(53,350,398)	(51,557,174)
Total Net Position	($50,436,927)	($47,410,691)



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Center's liabilities and deferred inflows exceeded assets and deferred outflows by $50,436,927.

At year-end, capital assets represented 8% of total assets. Capital assets include land, buildings and improvements, and equipment. Net investment in capital assets at June 30, 2017, was $986,990. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, $1,926,481 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased from 2017 to 2016 mainly due to an increase in cash and investments in 2017. Long-term liabilities increased mainly due to an increase in Net Pension Liability.

Table 2 shows the changes in net position for fiscal years 2017 and 2016.

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Table 2
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenues		
Charges for Services	$41,332,168	$41,013,791
Operating Grants, Contributions	10,654,802	12,715,291
General Revenues:		
Grants and Entitlements	3,127,453	3,055,072
Other	110,418	464,591
Total Revenues	55,224,841	57,248,745
Expenses:		
Instruction	7,636,132	6,854,624
Support Services:		
Pupil and Instructional Staff	24,520,852	24,519,302
School Administrative, General Administration, Fiscal and Business	7,428,485	6,252,837
Operations and Maintenance	1,375,087	406,301
Central	1,607,963	1,026,666
Operation of Non-Instructional Services	15,588,558	14,378,537
Interest and Fiscal Charges	94,000	96,725
Total Expenses	58,251,077	53,534,992
Change in Net Position	(3,026,236)	3,713,753
Net Position - Beginning of Year	(47,410,691)	(51,124,444)
Net Position - End of Year	($50,436,927)	($47,410,691)

The Center's revenues are mainly from three sources, charges for service, operating grants, and grants and entitlements. Charges for service revenues are generated by providing services to districts. The Center and a district enter an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. Operating grant revenues are awarded to the Center by various state and federal agencies. Grants and entitlements revenues are given directly to the Center and are calculated based on the average daily membership of the districts.

The Center's revenues are demonstrated by the following graph:

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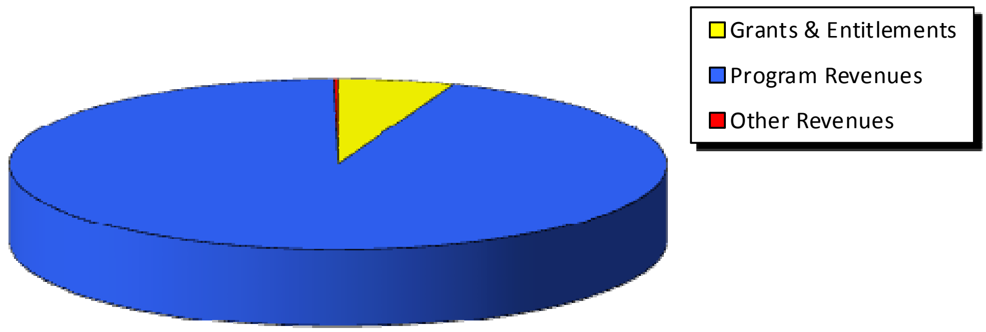
Governmental Activities
Revenue Sources

	2017	Percentage
Grants & Entitlements	$3,127,453	5.7%
Program Revenues	51,986,970	94.1%
Other Revenues	110,418	0.2%
Total Revenue Sources	$55,224,841	100.0%



Instruction comprises 13% of governmental program expenses. Support services expenses were 60.0% of governmental program expenses. All other expenses including interest expense and fiscal charges were 27%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Grants and entitlements revenue increased from 2016 mainly due to the increase of state funding the Center received in fiscal year 2017 compared to fiscal year 2016. Overall expenses for the current fiscal year increased when compared to 2016 primarily due to the increase in support service expenses.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government 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 entitlements.

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Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	$7,636,132	$6,854,624	($721,673)	$348,323
Support Services:				
Pupil and Instructional Staff	24,520,852	24,519,302	(1,190,149)	(1,264,168)
School Administrative, General Administration, Fiscal and Business	7,428,485	6,252,837	(321,458)	897,138
Operations and Maintenance	1,375,087	406,301	(845,139)	407,005
Central	1,607,963	1,026,666	(519,476)	126,237
Operation of Non-Instructional Services	15,588,558	14,378,537	(2,572,212)	(223,720)
Interest and Fiscal Charges	94,000	96,725	(94,000)	(96,725)
Total Expenses	$58,251,077	$53,534,992	($6,264,107)	$194,090

The Center's Major Funds

The Center has four major governmental funds: the General Fund, Special Education, Head Start, and Capital Projects. Assets of the General Fund comprised $20,461,336 (62%), Special Education comprised $981,963 (3%), Head Start comprised $2,133,251 (6%), and Capital Projects comprised $7,290,125 (22%) of the total $33,145,146 governmental fund assets.

General Fund: Fund balance at June 30, 2017 was $13,638,662, including $13,412,232 of unassigned balance. Fund balance increased $9,830 from 2016. The fund balance remained relatively constant from the prior year.

Title VI-B Special Education: Fund balance at June 30, 2017 was $(235,291). The fund balance decreased $155,651 from 2016 to 2017. The primary reason for the decrease in the fund balance was due to the decrease in intergovernmental revenue.

Head Start Fund: Fund balance at June 30, 2017 was $243,223. The fund balance decreased $65,334 from 2016 to 2017. The primary reason for the decrease in fund balance was mainly due to the decrease in intergovernmental revenue.

Capital Projects: Fund balance at June 30, 2017 was $7,283,750. The fund balance increased $2,983,750 from 2016 to 2017. The primary reason for the increase in fund balance was due to a transfer of monies from the General Fund.

General Fund Budgeting Highlights

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

The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget final basis revenue was $43,342,723 compared to the original budget estimates of $42,339,219. Of the $1,003,504 difference, most was due to underestimates for charges for services and intergovernmental revenues for fiscal year 2017.

For the General Fund, budget final basis expenditures were $39,384,549, compared to the original budget estimates of $39,424,821. Of the $40,272 difference, most was due to overestimating instruction and support services expenditures for fiscal year 2017.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2017, the Center had $2,865,990 invested in land, buildings and improvements and equipment. Table 4 shows fiscal 2017 balances compared to 2016:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2017	2016
Land	$1,398,750	$1,398,750
Buildings and Improvements	950,789	984,108
Equipment	516,451	625,836
Total Net Capital Assets	$2,865,990	$3,008,694

Overall, capital assets decreased due to depreciation expense and disposals being more than current asset additions.

See Note 5 to the Basic Financial Statements for further details on the Center's capital assets.

Debt

At June 30, 2017, the Center had $1,879,000 in debt outstanding, $59,000 due within one year.

Table 5 summarizes debt outstanding.

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Table 5
Outstanding Debt, at Year-End

	Governmental Activities	
	2017	2016
HCESC Building Capital Lease	$1,879,000	$1,935,000

See Notes 6 and 7 to the Basic Financial Statements for further details of the Center's long-term liabilities.

For the Future

As the preceding shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Hamilton County, state foundation revenue and grants. Contracts with Hamilton County districts are expected to increase in future years due to additional service requests from districts. These contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in future years.

As of the time of this report, the Ohio Department of Education is researching a model for a regional delivery system and the implementation of such a system. This new Ohio Regional Delivery System will directly affect the Centers and the method to which they are funded. At this point, the Center is unable to determine what effect this legislation will have on future state funding and on its financial operations.

In May 2000, the Ohio Supreme Court again ruled the school funding system in Ohio is far too dependent on property taxes which are inherently not "equitable" nor "adequate." The court directed the Governor and the legislature to address the fundamental issues creating the inequities. Any change in the funding will indirectly affect the Center's since the districts are their main revenue stream. Currently, the Center is unable to determine the outcome of the Court's directive.

All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer/Chief Financial Officer at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.

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Hamilton County Educational Service Center
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	$26,591,927
Receivables:	
Accounts	2,511,765
Interest	30,441
Intergovernmental	2,388,647
Loan	200,000
Inventory	9,472
Nondepreciable Capital Assets	1,398,750
Depreciable Capital Assets, Net	1,467,240
Total Assets	34,598,242
Deferred Outflows of Resources:	
Pension	22,771,813
Total Deferred Outflows of Resources	22,771,813
Liabilities:	
Accounts Payable	55,214
Accrued Wages and Benefits	5,821,333
Accrued Interest Payable	7,187
Long-Term Liabilities:	
Due Within One Year	401,642
Due In More Than One Year	
Net Pension Liability	96,207,880
Other Amounts	5,313,726
Total Liabilities	107,806,982
Net Position:	
Net Investment in Capital Assets	986,990
Restricted for:	
Special Education	267,057
Other State Grants	457,275
Head Start	296,638
Other Federal Grants	266,043
Other Grants	639,468
Unrestricted	(53,350,398)
Total Net Position	($50,436,927)

See accompanying notes to the basic financial statements.

Hamilton 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:				
Special	$7,588,923	$6,823,096	$52,715	($713,112)
Vocational	47,209	38,648	0	(8,561)
Support Services:				
Pupil	11,970,256	10,859,495	0	(1,110,761)
Instructional Staff	12,550,596	9,206,411	3,264,797	(79,388)
General Administration	90,118	59,474	0	(30,644)
School Administration	4,845,123	4,514,690	388,336	57,903
Fiscal	1,411,478	855,565	322,581	(233,332)
Business	1,081,766	966,381	0	(115,385)
Operations and Maintenance	1,375,087	417,734	112,214	(845,139)
Central	1,607,963	1,085,159	3,328	(519,476)
Operation of Non-Instructional Services	15,588,558	6,505,515	6,510,831	(2,572,212)
Interest and Fiscal Charges	94,000	0	0	(94,000)
Totals	$58,251,077	$41,332,168	$10,654,802	(6,264,107)

General Revenues:	
Grants and Entitlements, Not Restricted	3,127,453
Investment Earnings	8,353
Other Revenues	102,065
Total General Revenues	3,237,871
Change in Net Position	(3,026,236)
Net Position - Beginning of Year	(47,410,691)
Net Position - End of Year	($50,436,927)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2017

	General	Title VI-B Special Education	Head Start	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Investments	$16,296,764	$369,618	$598,865	$7,290,125	$2,036,555	$26,591,927
Receivables:						
Accounts	2,511,765	0	0	0	0	2,511,765
Interest	30,441	0	0	0	0	30,441
Intergovernmental	0	612,345	1,534,386	0	241,916	2,388,647
Loan	200,000	0	0	0	0	200,000
Interfund	1,412,894	0	0	0	0	1,412,894
Inventory	9,472	0	0	0	0	9,472
Total Assets	20,461,336	981,963	2,133,251	7,290,125	2,278,471	33,145,146
Liabilities:						
Accounts Payable	32,298	0	9,914	6,375	6,627	55,214
Accrued Wages and Benefits	4,936,923	166,125	652,397	0	65,888	5,821,333
Compensated Absences	154,337	13,520	0	0	7,412	175,269
Interfund Payable	0	425,264	852,730	0	134,900	1,412,894
Total Liabilities	5,123,558	604,909	1,515,041	6,375	214,827	7,464,710
Deferred Inflows of Resources:						
Grants	0	612,345	374,987	0	216,296	1,203,628
Unavailable Revenue	1,679,894	0	0	0	0	1,679,894
Investment Earnings	19,222	0	0	0	0	19,222
Total Deferred Inflows of Resources	1,699,116	612,345	374,987	0	216,296	2,902,744
Fund Balances:						
Nonspendable	9,472	0	0	0	0	9,472
Restricted	0	0	243,223	0	1,459,954	1,703,177
Committed	200,000	0	0	0	0	200,000
Assigned	16,958	0	0	7,283,750	387,561	7,688,269
Unassigned	13,412,232	(235,291)	0	0	(167)	13,176,774
Total Fund Balances	13,638,662	(235,291)	243,223	7,283,750	1,847,348	22,777,692
Total Liabilities, Deferred Inflows and Fund Balances	$20,461,336	$981,963	$2,133,251	$7,290,125	$2,278,471	$33,145,146

See accompanying notes to the basic financial statements

Hamilton County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
June 30, 2017

Total Governmental Fund Balances		$22,777,692
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.		
Capital assets used in the operation of Governmental Funds		2,865,990
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Accounts Receivable	1,479,894	
Interest	19,222	
Intergovernmental	1,203,628	
Other Receivables	200,000	
		2,902,744
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(7,187)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(3,661,099)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions		22,771,813
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(96,207,880)	
Other Amounts	(1,879,000)	
		(98,086,880)
Net Position of Governmental Activities		($50,436,927)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Title VI-B Special Education	Head Start	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:						
Tuition and Fees	$657,837	$0	$0	$0	$0	$657,837
Investment Earnings	2,101	0	0	0	0	2,101
Intergovernmental	3,127,453	2,001,189	8,389,214	0	1,180,178	14,698,034
Charges for Services	0	0	0	0	370,219	370,219
Contract Services	39,710,911	0	0	0	0	39,710,911
Other Revenues	99,167	0	0	0	2,900	102,067
Total Revenues	43,597,469	2,001,189	8,389,214	0	1,553,297	55,541,169
Expenditures:						
Current:						
Instruction:						
Special	6,924,847	0	0	0	46,280	6,971,127
Vocational	39,092	0	0	0	0	39,092
Support Services:						
Pupil	11,047,096	0	0	0	0	11,047,096
Instructional Staff	8,588,737	1,950,282	0	0	1,216,503	11,755,522
General Administration	60,151	0	0	16,250	0	76,401
School Administration	3,842,614	0	362,862	0	120,293	4,325,769
Fiscal	851,852	91,558	297,417	0	52,248	1,293,075
Business	1,005,369	0	0	0	0	1,005,369
Operations and Maintenance	407,279	115,000	0	0	818,505	1,340,784
Central	1,075,201	0	0	0	30,927	1,106,128
Operation of Non-Instructional Services	6,595,187	0	7,794,269	0	52,526	14,441,982
Debt Service:						
Principal Retirement	56,000	0	0	0	0	56,000
Interest and Fiscal Charges	94,214	0	0	0	0	94,214
Total Expenditures	40,587,639	2,156,840	8,454,548	16,250	2,337,282	53,552,559
Excess of Revenues Over (Under) Expenditures	3,009,830	(155,651)	(65,334)	(16,250)	(783,985)	1,988,610
Other Financing Sources (Uses):						
Transfers In	0	0	0	3,000,000	0	3,000,000
Transfers (Out)	(3,000,000)	0	0	0	0	(3,000,000)
Total Other Financing Sources (Uses)	(3,000,000)	0	0	3,000,000	0	0
Net Change in Fund Balance	9,830	(155,651)	(65,334)	2,983,750	(783,985)	1,988,610
Fund Balance - Beginning of Year	13,628,832	(79,640)	308,557	4,300,000	2,631,333	20,789,082
Fund Balance - End of Year	$13,638,662	($235,291)	$243,223	$7,283,750	$1,847,348	$22,777,692

See accompanying notes to the basic financial statements.

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

Net Change in Fund Balance - Total Governmental Funds		$1,988,610
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions 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 of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	9,858	
Depreciation Expense	(152,562)	
		(142,704)
Governmental funds report district pension contributions as expenditures. However in the Statement of Activites, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
District pension contributions	4,869,217	
Cost of benefits earned net of employee contrbutions	(9,721,485)	
		(4,852,268)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Accounts	593,199	
Interest	6,252	
Intergovernmental	(915,779)	
Other	(50,000)	
		(366,328)
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		56,000
In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.		214
Some expenses 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.		
Compensated Absences		290,240
Change in Net Position of Governmental Activities		($3,026,236)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Assets and Liabilities
Fiduciary Fund
June 30, 2017

	Agency
Assets:	
Equity in Pooled Cash and Investments	$5,140,965
Receivables:	
Accounts	340,767
Total Assets	5,481,732
Liabilities:	
Accounts Payable	594,271
Other Liabilities	4,887,461
Total Liabilities	$5,481,732

See accompanying notes to the basic financial statements.

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Note 1 - Description of the Center

The Hamilton County Educational Service Center (the "Center") serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend; and, Lockland consisting of the Villages of Arlington Heights and Lockland.

The Center's Governing Board is comprised of five members who are resident electors of the Member School District. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the seven local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the seven local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Career Campuses have one or another types of cooperative service agreements with the Center.

The Office of the Board is regularly referred to as the Center which is housed in a separate, modern facility in a complex known as Civic Center North. The Center serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and has staff of approximately 648 certificated and non-certificated support employees.

Reporting Entity

For financial reporting purposes the Center's financial statements include all funds of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Center would consider an organization to be a component unit if:

1. The Center appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Center; or

2. The organization was fiscally dependent upon the Center; or

3. The nature of the relationship between the Center and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Center misleading.

The Center included no component units in the financial report.

The Center provides fiscal agent service to the Hamilton Clermont Cooperative Information Technology Center (HCC) formerly known as HCCA, 7615 Harrison Avenue, Cincinnati, Ohio 45231, Unified Purchasing Cooperative, and the Center for Collaborative Solutions, a regional council of governments as disclosed in Note 15. HCC is one of 23 regional Information Technology Centers (ITC) established by the State of Ohio. HCC is a member of the Ohio Educational Computer Network. HCC provides data and Internet services for public and non-public schools in Greater Cincinnati Metropolitan Area. This includes collection and distribution of data for financial, student and media services. HCC also provides technical and networking service to affiliate schools.

The Site Director and his staff manage the day-to-day affairs of HCC. A Board of Directors, composed of member school's superintendents, approves the long term path for the site, as determined by the Site Director and an Executive Committee composed of five superintendents and two treasurers from member schools.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the 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 most significant of the Center's accounting policies are described below.

Measurement Focus

Government-wide Financial Statements

The Center's basic financial statements consist of government-wide 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.

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net position. Fiduciary Funds are not included in government-wide statements.

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The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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 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 Center.

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, current liabilities, and deferred inflows 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the categories governmental and fiduciary.

Governmental Funds

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 and deferred inflows is reported as fund balance. The following are the Center's major governmental funds:

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

Title VI-B Special Education Fund – Fund used to account for federal monies provided to support programs for students with disabilities.

Head Start Fund – The Head Start fund is used to account for all financial resources that are associated with the head start program.

Capital Projects Fund – The Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's only fiduciary funds are Agency funds (HCC and unified purchasing co-op) which accounts for assets and liabilities generated by the data center and the unified purchasing co-op.

Basis of Accounting

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

Revenues – Exchange and Non-exchange 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 Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, included 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 Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the 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 year end: contract services, grants and interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial 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. The deferred outflows of resources related to pension are reported on the governmental-wide statement of net position. For more pension related information, see Note 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include grants, investment earnings, and unavailable revenues. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Grants and investment earnings have been recorded as deferred inflows on the governmental fund financial statements.

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. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Center has, by resolution, specified the funds to receive an allocation of interest earnings.

For presentation on the financial statements, all investments and deposits are reported as “Equity in Pooled Cash and Investments”.

During the fiscal year, the Center held donated stock which is held at fair value. The fair value is based on quoted market prices.

Inventory

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and is expended/expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

Prepaid Items

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Center maintains a capitalization threshold of $2,000. The Center 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 except land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is allocated using the straight-line method over the following useful lives:

Description	Estimated Lives
Buildings and Improvements	10 - 50 years
Equipment	5 - 20 years

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The 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 entire compensated absence liability is reported on the government-wide financial statements.

Compensated absences are recognized in governmental fund financial statements, when they are due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

Vacation	**Certified**	**Administrators** (261 day employees only)	**Non-Certificated** (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year de-pending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum.Vac.	100% of Daily Rate of Accum. Vac.

Sick Leave	**Certified**	**Administrators**	**Non-Certificated**
Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4days per/month of employment (15 days per year)
Maximum Accumulation	250	250	250
Vested	As Earned	As Earned	As Earned

Vacation	**Certified**	**Administrators**	**Non-Certificated**
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.

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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.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's $1,926,481 in restricted net position, none was restricted by enabling legislation.

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. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column on the Statement of Net Position.

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting,* the Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Governing Board. Formal action by the Board of Education is needed to commit or rescind resources.

Assigned – resources that are intended to be used for specific purposes as approved through the Center's formal purchasing procedures by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenditures for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Estimates

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

Note 3 - Equity in Pooled Cash and Investments

The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – 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. Ohio law permits interim monies to be invested or deposited in the following securities:

(1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

(2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.

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

(4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

(5) Bonds, and other obligations of the State of Ohio.

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

(7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, 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 moneys deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2017, $17,113,992 of the Center's bank balance of $17,363,992 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance

Investments

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

	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
Stocks*	$84,013	Level 1	0.00
Money Market Funds	353,390	N/A	0.00
Federal Home Loan Bank	764,574	Level 2	3.71
Federal Farm Credit Bank	1,246,299	Level 2	3.59
Federal Home Loan Mortgage Corporation	1,213,293	Level 2	2.15
Commercial Paper	3,028,406	Level 2	1.60
Federal National Mortgage Association	2,719,794	Level 2	3.24
Negotiable CDs	4,699,813	Level 2	3.64
U.S. Treasury Notes	948,443	Level 1	3.84
	$15,058,025		
Portfolio Weighted Average Maturity			2.96

*The amount of $84,013 was donated stock by a private individual.

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Center's recurring fair value measurements as of June 30, 2017. All investments of the Center are valued using quoted market prices.

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The Center's investments in Money Market Funds, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and Federal National Mortgage Association were rated AA+ by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service. U.S. Treasury Notes and Negotiable CD's are not rated.

Concentration of Credit Risk – The Center places no limit on the amount it may invest in any one issuer. 1% of the Center's investments at fiscal year end were in Stock, 3% in Money Market Funds, 5% in Federal Home Loan Bank, 8% in Federal Home Loan Mortgage Corporation, 18% in Federal National Mortgage Association, 8% in Federal Farm Credit Bank, 20% in Commercial Paper, 31% in Negotiable CDs, and 6% in U.S. Treasury Notes.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center's securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

Note 4 – Receivables

Receivables at June 30, 2017, consisted of accounts, interest, intergovernmental grants, loan and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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Note 5 - Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$1,398,750	$0	$0	$1,398,750
Capital Assets, Being Depreciated				
Buildings and Improvements	1,232,893	0	0	1,232,893
Equipment	2,193,227	12,667	2,808	2,203,086
Totals at Historical Cost	4,824,870	12,667	2,808	4,834,729
Less Accumulated Depreciation:				
Buildings and Improvements	248,785	33,319	0	282,104
Equipment	1,567,391	119,244	0	1,686,635
Total Accumulated Depreciation	1,816,176	152,563	0	1,968,739
Governmental Activities Capital Assets, Net	$3,008,694	($139,896)	$2,808	$2,865,990

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$36,467
Support Services:	
Instructional Staff	28,042
General Administration	11,524
School Administration	13,053
Business	1,221
Operations and Maintenance	21,942
Operation of Non-Instructional Services	40,314
Total Depreciation Expense	$152,563

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Note 6 - Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Capital Lease Payable	$1,935,000	$0	$56,000	$1,879,000	$59,000
Compensated Absences	4,008,230	3,836,368	4,008,230	3,836,368	342,642
Subtotal Capital Leases and Other Amounts	5,943,230	3,836,368	4,064,230	5,715,368	401,642
Net Pension Liability:					
STRS	62,115,799	13,248,713	0	75,364,512	0
SERS	15,532,986	5,310,382	0	20,843,368	0
Subtotal Net Pension Liability	77,648,785	18,559,095	0	96,207,880	0
Total Long-Term Obligationis	$83,592,015	$22,395,463	$4,064,230	$101,923,248	$401,642

Compensated Absences will be paid from the fund from which the person is paid. The lease will be paid from the general fund.

Note 7 - Capital Leases

The Center is leasing its administrative building from the Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the building during the lease term. Columbus Regional Airport Authority assigned U.S. Bank National Association as trustee. U.S. Bank National Association deposited $2,341,000 in the Center's name for the purchase of the building. The lease is renewable annually and expires in 2036. The intention of the Center is to renew the lease annually.

The Center began making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is $1,879,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the lease, locking in the rate at 4.59% plus an annual administrative fee. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2017.

Fiscal Year Ending June 30,	Long-Term Debt
2018	$146,675
2019	145,830
2020	145,867
2021	145,762
2022	145,515
2023-2027	728,965
2028-2032	725,768
2033-2037	719,713
Total Minimum Lease Payments	2,904,095
Less: Amount Representing Interest	(992,562)
Less: Additional Program Cost Component	(32,533)
Present Value of Minimum Lease Payments	$1,879,000

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

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

The net pension liability represents the employer'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 obligation for this liability to annually required payments. The employer cannot control benefit terms or the manner in which pensions are financed; however, the employer 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 accrued wages and benefits on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description – 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.

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 or $86.00 multiplied by the years of service credit. 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 employer 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 14.00 percent. None of the 14 percent contribution rate was allocated to the Health Care Fund.

The contractually required contribution to SERS was $1,044,479 for fiscal year 2017. Of this amount $79,439 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – 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 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The employer 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 contractually required contribution to STRS was $3,824,738 for fiscal year 2017. Of this amount $540,463 is reported as accrued wages and benefits.

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 proportion of the net pension liability was based on the 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	$20,843,368	$75,364,512	$96,207,880
Proportion of the Net Pension Liability	0.35531050%	0.22515006%	
Pension Expense	1,788,297	7,933,188	9,721,485

At June 30, 2017, 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	$281,129	$3,045,088	$3,326,217
Changes of assumptions	1,391,409	0	1,391,409
Net difference between projected and actual earnings on pension plan investments	1,719,275	6,257,279	7,976,554
Changes in employer proportionate share of net pension liability and differences in contributions	1,479,495	3,728,921	5,208,416
Contributions subsequent to the measurement date	1,044,479	3,824,738	4,869,217
Total Deferred Outflows of Resources	$5,915,787	$16,856,026	$22,771,813
Deferred Inflows of Resources			
Changes in employer proportionate share of net pension liability and differences in contributions	$0	$0	$0
Total Deferred Inflows of Resources	$0	$0	$0

$4,869,217 reported as deferred outflows of resources related to pension resulting from 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:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2018	$1,495,703	$2,708,355	$4,204,058
2019	1,494,465	2,708,354	4,202,819
2020	1,386,919	5,109,448	6,496,367
2021	494,221	2,505,131	2,999,352
Total	$4,871,308	$13,031,288	$17,902,596

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, 2016, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50-18.20 percent
COLA or Ad Hoc COLA	3.00 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 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement. The most recent experience study was completed June 30, 2010.

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

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 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 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%)
Proportionate share of the net pension liability	$27,595,321	$20,843,368	$15,191,703

Actuarial Assumptions - STRS

The total pension liability in the July 1, 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, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA 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:

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 %	

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 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the 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%)
Proportionate share of the net pension liability	$100,153,312	$75,364,512	$54,453,697

Changes Between Measurement Date and Report Date

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

Note 9 - Post Employment Benefits

School Employees Retirement System

Health Care Plan Description – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. 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. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% 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% employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contributions assigned to health care for the years ended June 30, 2017, 2016, and 2015 were $0, $0, and $123,374, 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 plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $0, $0, and $0, respectively.

Note 10 - Contingent Liabilities

Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2017.

Litigation

The Center's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

Note 11 - Risk Management

The 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. The Center carries insurance coverage with the following companies.

COVERAGE	COMPANY
Automobile	The Argonaut Insurance Company
Property	The Argonaut Insurance Company
General Liability	The Argonaut Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

COVERAGE	LIMITS	DEDUCTIBLE
Automobile	$1,000,000 each occurrence	$500 collision
Property	$1,000,000 each occurrence	$500 each loss
General Liability	$1,000,000 each occurrence $3,000,000 general aggregate	

The Center pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

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

Note 12 - State Funding

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district’s portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by $6.50. This amount is deducted by the State Department of Education from that school district’s resources provided under the State’s Foundation Program. The Department of Education’s portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by $31. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Note 13 – Accountability

The following individual funds had a deficit in fund balance at year end:

Fund	Deficit
Major Fund:	
Title VI-B Special Education	$235,291
Other Governmental Funds:	
IDEA Preschool Grant	167

The deficits in fund balances were primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

Note 14 - Interfund Transactions

Interfund transactions at June 30, 2017, consisted of the following interfund receivables and interfund payables and transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	$1,412,894	$0	$0	$3,000,000
Head Start Fund	0	852,730	0	0
Title VI-B Special Education	0	425,264	0	0
Other Governmental Funds	0	134,900	0	0
Capital Projects	0	0	3,000,000	0
Total All Funds	$1,412,894	$1,412,894	$3,000,000	$3,000,000

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

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Note 15 - Jointly Governed Organization

Hamilton Clermont Cooperative Information Technology Center

The Hamilton Clermont Cooperative Information Technology Center (HCC) is a governmental jointly governed organization formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the governments of these schools supports HCC and shares in a percentage of equity based on the resources provided. HCC is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating school districts.

Unified Purchasing Cooperative

The Unified Purchasing Cooperative is comprised of over 50 public school district's and nearly 90 non-public schools in Brown, Butler, Clermont, Hamilton (OH); Boone, Campbell, Kenton (KY); Dearborn, Ohio, Ripley (IN) counties; 4 Educational Service Centers, 2 Head Start Programs, 2 MRDD's and the Diocese of Covington.

By aggregating the requirements of its members, each member's purchasing power increases and as a result Unified Purchasing Cooperative is able to obtain the best prices for quality products and services.

Center for Collaborative Solutions, A Regional Council of Governments

The Center for Collaborative Solutions, A Regional Council of Governments (the "COG"), is a body Corporate and Politic established pursuant to Ohio Revised Code Chapter 167, by agreement of its members. The COG is a collaborative between Hamilton County Educational Service Center and Clermont County Educational Service Center. The COG is currently providing services for school districts and other entities in Hamilton County and Clermont County, principally providing substitute teachers and substitute classified personnel. Hamilton County Educational Service Center acts as a fiscal officer for the COG.

The governing authority of The Center for Collaborative Solutions (COG) is the COG Board, which is comprised of two superintendents, two board members and one treasurer. All members are from The Hamilton County ESC and Clermont County ESC. The Officer positions of the COG Board are President, Vice-President and Secretary. The ESCs rotate those positions as determined by the COG Board. All other officers serve until his/her successor is appointed.

SWOOSH Consortium

Southwest Ohio Organization of School Health (SWOOSH) is a health and wellness consortium for school districts and government agencies that come together to provide stability and quality access to health care and benefits to all eligible members. SWOOSH will do this by leveraging economies of scale, commonality of choices and driving wellness and health management by collaborative efforts of all participating agencies.

The objective of the SWOOSH consortium is to maximize benefits and / or reduce costs of medical, prescription drug, vision, dental, life and / or other group insurance coverages. While the consortium serves short term savings needs, in the long term it will promote rate stability and allow the districts to move to a healthier place using wellness.

Working together to purchase group insurance allows the districts to pool their members. With more members on the plan, the consortium can leverage the larger scale of the entire group and work toward obtaining the most competitive rates while securing unique wellness offers and additional investments to better manage long term costs. For example, the SWOOSH consortium has a dedicated wellness nurse, wellness dollars for each district and is creating district health scorecards to help improve the overall health and wellness of all employees.

Note 16 - Claims Servicing Pool

The Center participates in Greater Cincinnati Insurance Consortium (GCIC) Self-Insurance Program, a shared risk pool, comprised of other area school districts. Each member pays an administrative fee to the pool. Each school district has a representative on the assembly (usually the superintendent or designee).

Note 17 –Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the 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:

Fund Balances	General	Head Start	Special Education	Capital Project	Other Governmental Funds	Total
Nonspendable:						
Inventory	$9,472	$0	$0	$0	$0	$9,472
Total Nonspendable	9,472	0	0	0	0	9,472
Restricted for:						
Head Start Program	0	243,223	0	0	0	243,223
Other Grants	0	0	0	0	915,948	915,948
Educational Management Information System	0	0	0	0	1,800	1,800
Miscellaneous State Grants	0	0	0	0	344,392	344,392
Miscellaneous Federal Grants	0	0	0	0	197,814	197,814
Total Restricted	0	243,223	0	0	1,459,954	1,703,177
Committed to:						
Loan Receivable	200,000	0	0	0	0	200,000
Total Committed	200,000	0	0	0	0	200,000
Assigned to:						
Permanent Improvements	0	0	0	0	387,561	387,561
Capital Projects	0	0	0	7,283,750	0	7,283,750
Encumbrances	16,958	0	0	0	0	16,958
Total Assigned	16,958	0	0	7,283,750	387,561	7,688,269
Unassigned (Deficit)	13,412,232	0	(235,291)	0	(167)	13,176,774
Total Fund Balance	$13,638,662	$243,223	($235,291)	$7,283,750	$1,847,348	$22,777,692

Note 18 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2017, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, and GASB Statement No. 80, *Blending Requirements For Certain Component Units – An Amendment of GASB No. 14.*

GASB Statement No. 77 establishes improved financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The implementation of GASB Statement No 77 did not have an effect on the financial statements of the District.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

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

	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.22515006%	0.22475533%	0.20353901%	0.20353901%
Center's Proportionate Share of the Net Pension Liability	$75,364,512	$62,115,799	$49,507,731	$58,814,466
Center's Covered-Employee Payroll	$24,876,314	$24,771,250	$22,395,762	$38,195,800
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	302.96%	250.76%	221.06%	153.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) - Information prior to 2014 is not available

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

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

	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.35531050%	0.34155250%	0.29964300%	0.29964300%
Center's Proportionate Share of the Net Pension Liability	$20,843,368	$15,532,986	$12,080,856	$14,199,431
Center's Covered-Employee Payroll	$8,794,593	$9,393,361	$8,794,986	$14,529,747
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	237.00%	165.36%	137.36%	97.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) - Information prior to 2014 is not available

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

Hamilton County Educational Service Center
Required Supplementary Information
Schedule of Center Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$3,824,738	$3,482,684	$3,467,975	$2,911,449	$4,965,454	$4,631,272	$4,786,028	$4,634,525	$4,682,235	$4,766,918
Contributions in Relation to the Contractually Required Contribution	(3,824,738)	(3,482,684)	(3,467,975)	(2,911,449)	(4,965,454)	(4,631,272)	(4,786,028)	(4,634,525)	(4,682,235)	(4,766,918)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Center Covered-Employee Payroll	$27,319,557	$24,876,314	$24,771,250	$22,395,762	$38,195,800	$35,625,169	$36,815,600	$35,650,192	$36,017,192	$36,668,600
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Hamilton County Educational Service Center
Required Supplementary Information
Schedule of Center Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution (1)	$1,044,479	$1,231,243	$1,238,045	$1,218,985	$2,010,917	$1,908,012	$1,977,120	$2,109,654	$2,284,733	$2,148,518
Contributions in Relation to the Contractually Required Contribution	(1,044,479)	(1,231,243)	(1,238,045)	(1,218,985)	(2,010,917)	(1,908,012)	(1,977,120)	(2,109,654)	(2,284,733)	(2,148,518)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Center Covered-Employee Payroll	$7,460,564	$8,794,593	$9,393,361	$8,794,986	$14,529,747	$14,185,963	$15,728,878	$15,580,901	$23,218,831	$21,879,002
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

(1) For years 2006-2013, the amounts include H/CC.

N/A - Information unavailable

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

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	$642,606	$657,837	$657,837	$0
Investment Earnings	168,598	172,594	172,594	0
Intergovernmental	3,055,044	3,127,453	3,127,453	0
Charges for Services	38,376,100	39,285,672	39,285,672	0
Other Revenues	96,871	99,167	99,167	0
Total Revenues	42,339,219	43,342,723	43,342,723	0
Expenditures:				
Current:				
Instruction:				
Special	6,710,488	6,703,633	6,856,111	(152,478)
Vocational	38,158	38,119	38,986	(867)
Support Services:				
Pupil	10,652,397	10,641,516	10,883,563	(242,047)
Instructional Staff	8,421,151	8,412,549	8,603,897	(191,348)
General Administration	58,873	58,813	60,151	(1,338)
School Administration	3,754,626	3,750,790	3,836,104	(85,314)
Fiscal	831,777	830,927	849,827	(18,900)
Business	942,563	941,600	963,017	(21,417)
Operations and Maintenance	418,036	417,609	427,108	(9,499)
Central	1,058,839	1,057,758	1,081,817	(24,059)
Operation of Non-Instructional Services	6,390,890	6,384,362	6,529,578	(145,216)
Capital Outlay	147,023	146,873	150,214	(3,341)
Total Expenditures	39,424,821	39,384,549	40,280,373	(895,824)
Excess of Revenues Over (Under) Expenditures	2,914,398	3,958,174	3,062,350	(895,824)
Other Financing Sources (Uses):				
Advances In	1,901,767	1,946,842	1,946,842	0
Advances (Out)	(1,648,579)	(1,646,895)	(1,684,354)	(37,459)
Transfers (Out)	(2,936,280)	(2,933,281)	(3,000,000)	(66,719)
Total Other Financing Sources (Uses)	(2,683,092)	(2,633,334)	(2,737,512)	(104,178)
Net Change in Fund Balance	231,306	1,324,840	324,838	(1,000,002)
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	15,589,703	15,589,703	15,589,703	0
Fund Balance End of Year	$15,821,009	$16,914,543	$15,914,541	($1,000,002)

See accompanying notes to the supplementary information.

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

	Title VI-B Special Education Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	$3,494,094	$2,774,759	$2,774,759	$0
Total Revenues	3,494,094	2,774,759	2,774,759	0
Expenditures:				
Current:				
Support Services:				
Instructional Staff	2,284,248	2,269,232	2,786,653	(517,421)
Fiscal	75,051	74,558	91,558	(17,000)
Operations and Maintenance	94,267	93,647	115,000	(21,353)
Total Expenditures	2,453,566	2,437,437	2,993,211	(555,774)
Excess of Revenues Over (Under) Expenditures	1,040,528	337,322	(218,452)	(555,774)
Other Financing Sources (Uses):				
Advances In	535,511	425,264	425,264	0
Advances (Out)	(559,453)	(555,775)	(682,501)	(126,726)
Total Other Financing Sources (Uses)	(23,942)	(130,511)	(257,237)	(126,726)
Net Change in Fund Balance	1,016,586	206,811	(475,689)	(682,500)
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	475,690	475,690	475,690	0
Fund Balance End of Year	$1,492,276	$682,501	$1	($682,500)

See accompanying notes to the supplementary information.

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

	Head Start Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	$7,868,771	$8,436,904	$8,436,904	$0
Total Revenues	7,868,771	8,436,904	8,436,904	0
Expenditures:				
Current:				
Support Services:				
School Administration	142,196	342,660	370,008	(27,348)
Fiscal	125,388	302,159	326,274	(24,115)
Operation of Non-Instructional Services	3,225,924	7,773,767	8,394,196	(620,429)
Total Expenditures	3,493,508	8,418,586	9,090,478	(671,892)
Excess of Revenues Over (Under) Expenditures	4,375,263	18,318	(653,574)	(671,892)
Other Financing Sources (Uses):				
Advances In	795,308	852,730	852,730	0
Advances (Out)	(278,819)	(671,893)	(725,517)	(53,624)
Total Other Financing Sources (Uses)	516,489	180,837	127,213	(53,624)
Net Change in Fund Balance	4,891,752	199,155	(526,361)	(725,516)
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	526,362	526,362	526,362	0
Fund Balance End of Year	$5,418,114	$725,517	$1	($725,516)

See accompanying notes to the supplementary information.

Note 1 – Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center's Board approves a budget for governmental funds on or before the start of the new fiscal year, which includes estimated resources and expenditures.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Center's Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2017.

While the 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 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 Balances – Budget and Actual (Non-GAAP Budgetary Basis) presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis to the budgetary basis for the General Fund, Head Start Fund, and Title VI-B Special Education Fund:

Net Change in Fund Balance

	General	Head Start	Title VI-B Special Education
GAAP Basis	$9,830	($65,334)	($155,651)
Revenue Accruals	(254,746)	47,690	773,570
Expenditure Accruals	339,095	(37,061)	(466,763)
Advances In	1,946,842	852,730	425,264
Advances Out	(1,684,354)	(725,517)	(682,501)
Encumbrances	(31,829)	(598,869)	(369,608)
Budget Basis	$324,838	($526,361)	($475,689)

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

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

FEDERAL GRANTOR ***Pass Through Grantor*** **Program / Cluster Title**	**Federal CFDA Number**	**Pass Through Entity Identifying Number**	**Total Federal Expenditures**
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Ohio Department of Education			
Child and Adult Care Food Program	10.558	N/A	$ 391,454
Total U.S. Department of Agriculture			**391,454**
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A150035 & S010A160035	101,760
Race to the Top - Early Learning Challenge	84.412	S412A120028	19,142
English Language Acquisition Grants	84.365	S365B150035 & S365A170035	65,864
School Improvement Grants	84.377	H323A120002	56,987
Special Education Cluster			
Special Education - Grants to the States	84.027	H027A150111	2,623,605
Special Education - Preschool Grants	84.173	H173A160119 & H173A170119	145,348
Total Special Education Cluster			2,768,953
School Climate Transformation	84.184F	S184F140016	62,945
Total U.S. Department of Education			**3,075,651**
U.S. DEPARTMENT OF Health & Human Services			
Direct Program			
Head Start	93.600	05CH8471	8,100,156
Passed Through Ohio Department of Job & Family Services			
Refugee and Entrant Assistance - State/Replacement Designee Administered Programs	93.566	17010HRSOC	18,966
Early Learning Initiative	93.558	C89060098	39,464
Total U.S. Department of Health & Human Services			**8,158,586**
Total Expenditures of Federal Awards			**$11,625,691**

The accompanying notes are an integral part of this schedule.

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

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

NOTE A – BASIS OF PRESENTATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

Hamilton County Educational Service Center
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231

To the Governing Body:

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 Hamilton County Educational Service Center, Hamilton County, (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 10, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 2017-001 to be a material weakness.

Compliance and Other Matters

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

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577
www.ohioauditor.gov

Purpose of this Report

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

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

January 10, 2018

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

Hamilton County Educational Service Center
Hamilton County
11083 Hamilton Avenue
Cincinnati, Ohio 45231

To the Governing Body:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

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

Corporate Centre of Blue Ash, 11117 Kenwood Road, Blue Ash, Ohio 45242
Phone: 513-361-8550 or 800-368-7419 Fax: 513-361-8577
www.ohioauditor.gov

Report on Internal Control Over Compliance

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

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

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

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

Dave Yost

Dave Yost
Auditor of State

Columbus, Ohio

January 10, 2018

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2017

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material weaknesses in internal control reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR § 200.516(a)?**	No
(d)(1)(vii)	**Major Programs (list):**	CFDA 93.600 Head Start
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee under 2 CFR §200.520?**	No

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

FINDING NUMBER 2017-001

Material Weakness

Lack of Internal Controls over Financial Reporting

When designing the public office's system of internal control and the specific control activities, management should consider ensuring that accounting records are properly designed, verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records, and performing analytical procedures to determine the reasonableness of financial data.

FINDING NUMBER 2017-001
(Continued)

The Center recorded an audit adjustment in the prior year requiring a $276,480 fund balance adjustment from Other Grants fund in the Remaining Fund Information opinion unit to the General Fund. The Center made this fund balance adjustment. However during the compilation of the 2017 financial statements, this adjustment was incorrectly made a second time. This caused the General Fund Pooled Cash and Investments and Total Fund Balance to be overstated by $276,480 and the Remaining Fund Information opinion unit Pooled Cash and Investments and Total Fund Balance to be and understated by $276,480.

The Center corrected the accompanying financial statements.

Failure to properly report financial activity can result in inaccurate annual financial reports.

We recommend that management perform a detailed review of the financial statements and footnotes prior to submitting them for audit.

Officials' Response:

We did not receive a response from Officials to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

David L. Distel, Superintendent
Donald F. Rabe, Treasurer
www.hcesc.org

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2017

Finding Number	Finding Summary	Status	Additional Information
2016-001	Failure to properly Classify Intergovernmental Revenues	Corrected	
2016-002	Failure to properly aggregate Pension Deferred Outflows and Deferred Inflows	Corrected	

Administrative Offices
11083 Hamilton Avenue
Cincinnati, Ohio 45231
513.674.4200 (p) / 513.742.8339 (f)

Center for Early Learning Programs
924 Waycross Road
Cincinnati, Ohio 45240
513.674.4200 (p) / 513.851.5747 (f)

The Learning Center at North Norwood
5017 Marion Avenue
Cincinnati, Ohio 45212
513.396.5940 (p) / 513.396.5942 (f)

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David L. Distel, Superintendent
Donald F. Rabe, Treasurer
www.hcesc.org

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)
JUNE 30, 2017

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	The management GAAP conversion consultants will perform a detailed review of the financial statements and footnotes prior to submitting them for audit in the future.	7/1/18	Donald F. Rabe

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Dave Yost • Auditor of State

HAMILTON EDUCATIONAL SERVICE CENTER

HAMILTON 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
JANUARY 30, 2018

88 East Broad Street, Fourth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov