EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY
JUNE 30, 2018

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TUSCARAWAS COUNTY
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INDEPENDENT AUDITOR'S REPORT

East Central Ohio Educational Service Center
Tuscarawas County
834 East High Avenue
New Philadelphia, Ohio 44663

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Educational Service 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, the major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio, as of June 30, 2018, 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.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's Discussion and Analysis* and Schedules of Net Pension and Other Post-Employment Benefit Liabilities and Pension and Other Post-Employment Benefit Contributions listed in the Table of Contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Educational Service 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.

We did not subject the introductory section and statistical section information to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2019, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

February 12, 2019

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

Financial Highlights

Key financial highlights for the fiscal year 2018 are as follows:

- Net position of governmental activities increased $7,012,819.

- General revenues accounted for $700,449 in revenue or approximately 5 percent of all revenues. Program specific revenues in the form of charges for services, and operating grants and contributions accounted for $13,200,795 or approximately 95 percent of total revenues of $13,901,244.

- Total assets of governmental activities increased $954,256, primarily due to increases in cash and cash equivalents, while total liabilities decreased $6,784,473, primarily due to decreases in the net pension liability.

- The Educational Service Center had $6,888,425 in expenses related to governmental activities; these expenses were offset by program specific charges for services, and operating grants and contributions.

- Total governmental funds had $14,170,432 in revenue and $13,478,013 in expenditures. Overall the net change in total governmental fund balances was an increase of $798,419.

Using this Annual Financial Report

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

The Statement of Net Position and Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of Educational Service 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 Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the large number of funds used by the Educational Service Center to provide programs and activities for students, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The Statement of Net Position and the Statement of Activities answer this question. These statements include all assets and liabilities 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 Educational Service Center's net position and changes in net position. This change in net position is important because it tells the reader that, for Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include Educational Service Center's facility conditions, required educational programs, and other factors.

In the Statement of Net Position and the Statement of Activities, all of the Educational Service Center's activities are considered to be Governmental Activities including instruction, support services, operation and maintenance of plant and food service operations.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 12. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multiple of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds

Most of the Educational Service 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 fiscal 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 Educational Service Center's general governmental 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.

The Educational Service Center as a Whole

Recall that the Statement of Net Position provides the perspective of Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2018 compared to 2017.

Table 1
Net Position
Governmental Activities

	2018	2017	Change
Assets			
Current and Other Assets	$4,093,751	$3,192,032	$901,719
Capital Assets	1,504,562	1,452,025	52,537
Total Assets	5,598,313	4,644,057	954,256
Deferred Outflow of Resources			
Pension	6,011,842	5,682,465	329,377
OPEB	247,165	40,925	206,240
Total Deferred Outflow of Resources	6,259,007	5,723,390	535,617
Liabilities			
Current and Other Liabilities	1,209,688	837,200	372,488
Long-Term Liabilities:			
Due Within One Year	144,608	97,720	46,888
Due in More Than One Year:			
Net Pension Liability	17,788,472	24,243,890	(6,455,418)
Net OPEB Liability	4,223,063	5,094,355	(871,292)
Other Amounts	195,688	72,827	122,861
Total Liabilities	23,561,519	30,345,992	(6,784,473)
Deferred Inflows of Resources			
Pension	835,530	80,181	755,349
OPEB	506,178	0	506,178
Total Deferred Inflows of Resources	1,341,708	80,181	1,261,527
Net Position (Deficit)			
Net Investment in Capital Assets	1,401,703	1,444,605	(42,902)
Restricted	49,230	65,070	(15,840)
Unrestricted	(14,496,840)	(21,568,401)	7,071,561
Total Net Position (Deficit)	($13,045,907)	($20,058,726)	$7,012,819

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

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

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

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

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

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

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

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

As a result of implementing GASB 75, the Educational Service Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation, along with a restatement of fund classification, also had the effect of restating deficit net position at June 30, 2017, from ($15,131,483) to ($20,058,726).

In total, assets increased $954,256. Current and other assets increased $901,719, primarily due to increases in cash and cash equivalents, as a result the Educational Service Center generating sufficient revenues from its services to provide for its operations. Capital assets increased $52,537, due to asset additions exceeding annual depreciation.

In total, liabilities decreased $6,784,473. Current and other liabilities increased $372,488 primarily due to increases in accrued wages and benefits, and unearned revenues for school district prepayments. The decrease in long-term liabilities in the amount of $7,156,961 was due primarily to decreases in net pension liability and net OPEB liability which represent the Educational Service Center's proportionate shares of the respective pension systems' unfunded benefits. The decrease was offset slightly by an increase in other long-term liabilities from the inception of a capital lease.

In order to further understand what makes up the changes in net position for the current year, the following tables gives readers further details regarding the results of activities for 2018 and 2017.

Table 2
Changes in Net Position
Governmental Activities

	2018	**2017**	**Change**
Revenues			
Program Revenues			
Charges for Services	$11,762,704	$12,483,417	($720,713)
Operating Grants and Contributions	1,438,091	1,561,122	(123,031)
Capital Grants and Contributions	0	105,000	(105,000)
Total Program Revenues	13,200,795	14,149,539	(948,744)
General Revenues			
Grants and Entitlements not Restricted to Specific Programs	682,391	978,123	(295,732)
Others	18,058	9,108	8,950
Total General Revenues	700,449	987,231	(286,782)
Total Revenues	**$13,901,244**	**$15,136,770**	**($1,235,526)**

Table 3
Changes in Net Position
Governmental Activities

	2018	2017	Change
Program Expenses			
Instruction			
Regular	$807,085	$4,680,598	($3,873,513)
Special	1,411,084	3,080,756	(1,669,672)
Vocational	12,187	77,278	(65,091)
Student Intervention Services	14,348	546,539	(532,191)
Support Services			
Pupil	1,188,661	3,156,595	(1,967,934)
Instructional Staff	1,668,621	2,323,426	(654,805)
Board of Education	16,048	40,653	(24,605)
Administration	417,561	1,382,066	(964,505)
Fiscal	331,716	413,840	(82,124)
Business	511,121	766,042	(254,921)
Operation and Maintenance of Plant	223,444	217,960	5,484
Pupil Transportation	0	66,404	(66,404)
Central	204,123	354,070	(149,947)
Operation of Non-Instructional Services	0	1,880	(1,880)
Food Service Operation	81,210	74,141	7,069
Interest and Fiscal Charges	1,216	1,801	(585)
Total Expenses	**6,888,425**	**17,184,049**	**(10,295,624)**
Change in Net Position	7,012,819	(2,047,279)	9,060,098
Net Position (Deficit) Beginning of Year	(20,058,726)	(13,084,204)	(6,974,522)
Restatement (See Note 3)	0	(4,927,243)	4,927,243
Net Position (Deficit) End of Year	**($13,045,907)**	**($20,058,726)**	**$7,012,819**

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $40,925 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $525,166. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$6,888,425
Negative OPEB expense under GASB 75	525,166
2018 contractually required contribution	46,188
Adjusted 2018 program expenses	7,459,779
Total 2017 program expenses under GASB 45	17,184,049
Decrease in program expenses not related to OPEB	($9,724,270)

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 10) As a result of these changes, pension expense decreased from $2,520,545 in fiscal year 2017 to a negative pension expense of $4,934,294 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

Program Expenses	2018 Program Expenses Related to Negative Pension Expense
Instruction:	
Regular	($1,066,525)
Special	(960,660)
Vocational	(42,229)
Support Services:	
Pupils	(1,750,906)
Instructional Staff	(439,138)
Board of Education	(5,151)
Administration	(559,950)
Fiscal	(15,349)
Business	(7,296)
Operation and Maintenance of Plant	(1,542)
Central	(85,548)
Total Expenses	($4,934,294)

Program expenses of the Educational Service Center represent the costs of providing services. In total program expenses decreased $10,295,624. The decrease was primarily due to the negative pension and OPEB expenses, as previously discussed. Additionally, program expenses are incurred as their related services are needed by/available to member entities. In fiscal year 2018, program expenses also decreased from the prior year in relation to PEAK/Fuel Education services as well as student intervention services. Finally, fiscal year 2017 reported additional expenses related to the grant contravention of the Straight A Teacher Credentialing grant.

The primary sources of revenue for the Educational Service Center are derived from charges for services provided to contracting school districts within its boundaries, which represent approximately 85 percent of total revenues. The decrease in charges for services is primarily due to decreases in revenues for the PEAK/Fuel Education Program from the prior fiscal year. Decreases in 21st Century Grant revenue was primarily responsible for the decrease in operating grants and contributions, which represent approximately 10 percent of total governmental revenues.

The Statement of Activities shows the cost of program services and the charges for services, and operating grants and contributions, and interest earnings offsetting those services. Table 4 shows the total cost of services and the net cost of services for fiscal year 2018 compared to fiscal year 2017. In other words, it identifies the cost of those services supported by unrestricted entitlements.

Table 4
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2018	**2017**	**2018**	**2017**
Instruction:				
Regular	$807,085	$4,680,598	($2,650,648)	$82,138
Special	1,411,084	3,080,756	(2,936,759)	(1,353,668)
Vocational	12,187	77,278	(105,704)	(5,703)
Student Intervention Services	14,348	546,539	(10,761)	(57,155)
Support Services:				
Pupil	1,188,661	3,156,595	(914,210)	1,714,528
Instructional Staff	1,668,621	2,323,426	182,086	1,105,054
Board of Education	16,048	40,653	(2,016)	21,999
Administration	417,561	1,382,066	(282,665)	677,523
Fiscal	331,716	413,840	107,787	208,256
Business	511,121	766,042	200,684	347,059
Operation and Maintenance of Plant	223,444	217,960	99,732	112,701
Pupil Transportation	0	66,404	0	366
Central	204,123	354,070	17,622	184,327
Operation of Non-Instructional Service	0	1,880	0	10
Food Service Operations	81,210	74,141	(18,734)	(4,726)
Interest and Fiscal Charges	1,216	1,801	1,216	1,801
Total Expenses	$6,888,425	$17,184,049	($6,312,370)	$3,034,510

The Educational Service Center relies on program revenues to support its operations, which were sufficient in fiscal year 2018.

The Educational Service Center Funds

Information about the Educational Service Center's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting. The Educational Service Center reports one major fund, the General Fund. The General Fund accounts for the vast majority of services provided by the Educational Service Center. The General Fund had $12,700,428 in revenues and $12,013,612 in expenditures. Overall, including other financing sources, the General Fund's balance increased $792,816. The decrease in revenues and the corresponding decrease in expenditures is due primarily to decreases in services provided to participating entities via contracts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the Educational Service Center had $1,504,562 invested in land, land improvements, buildings and improvements, furniture and equipment, and vehicles. See Note 8 for more detailed information of the Educational Service Center's capital assets.

Debt

At June 30, 2018, the Educational Service Center had $102,859 in outstanding capital lease obligations. Of this total, $19,378 is due within one year. See Note 14 for more information on the Educational Service Center's long-term obligations, including compensated absences, net pension liability, and net OPEB liability.

Economic Factors

Overall, the Educational Service Center remains financially stable. As the preceding information shows, the Educational Service Center relies heavily on service contracts with local, city and exempted village school districts, and other entities within the four county areas. The future of the Educational Service Center is dependent upon maintaining stability in a very difficult budget environment. These challenges include legislative reductions to State funding for educational service centers. In anticipation of these challenges, the Education Service Center will need to continue to provide its services to school districts and other community entities in the most cost effective manner available. One such initiative is a Shared Services Collaboration with other education service centers and local governments. The Education Service Center will continue to identify possible sources of revenue generating activities, such as expanding Distance Learning Services to school districts across the State, and throughout the United States. The Educational Service Center's system of financial management and internal controls is well regarded, and all of its financial abilities will be needed to meet the financial challenges in the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Matt King, Treasurer/CFO, at East Central Ohio Educational Service Center, 834 East High Avenue, New Philadelphia, OH 44663.

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East Central Ohio Educational Service Center
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$3,172,026
Intergovernmental Receivable	878,970
Accounts Receivable	23,031
Prepaid Items	19,724
Non-Depreciable Capital Assets	59,946
Depreciable Capital Assets, Net	1,444,616
Total Assets	5,598,313
Deferred Outflows of Resources	
Pension	6,011,842
OPEB	247,165
Total Deferred Outflows of Resources	6,259,007
Liabilities	
Accounts Payable	48,947
Accrued Wages and Benefits Payable	785,860
Intergovernmental Payable	127,670
Unearned Revenue	247,211
Due Within One Year	144,608
Due In More Than One Year:	
Net Pension Liability (See Note 10)	17,788,472
Net OPEB Liability (See Note 11)	4,223,063
Other Amounts	195,688
Total Liabilities	23,561,519
Deferred Inflows of Resources	
Pension	835,530
OPEB	506,178
Total Deferred Inflows of Resources	1,341,708
Net Position (Deficit)	
Net Investment in Capital Assets	1,401,703
Restricted for:	
Federally Funded Programs	38,103
Other Purposes	11,127
Unrestricted	(14,496,840)
Total Net Position (Deficit)	($13,045,907)

See accompanying notes to the basic financial statements

East Central Ohio Educatonal Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$807,085	$2,971,542	$486,191	$2,650,648
Special	1,411,084	4,044,292	303,551	2,936,759
Vocational	12,187	117,891	0	105,704
Student Intervention Services	14,348	25,109	0	10,761
Support Services:				
Pupil	1,188,661	2,021,857	81,014	914,210
Instructional Staff	1,668,621	1,217,971	268,564	(182,086)
Board of Education	16,048	18,064	0	2,016
Administration	417,561	600,226	100,000	282,665
Fiscal	331,716	223,929	0	(107,787)
Business	511,121	215,210	95,227	(200,684)
Operation and Maintenance of Plant	223,444	120,112	3,600	(99,732)
Central	204,123	186,501	0	(17,622)
Food Service Operation	81,210	0	99,944	18,734
Interest and Fiscal Charges	1,216	0	0	(1,216)
Total Primary Government	$6,888,425	$11,762,704	$1,438,091	6,312,370

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	682,391
Investment Earnings	16,026
Miscellaneous	2,032
Total General Revenues	700,449
Change in Net Position	7,012,819
Net Position Beginning of Year - Restated (Note 3)	(20,058,726)
Net Position End of Year	($13,045,907)

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	$3,166,448	$5,578	$3,172,026
Receivables:			
Accounts	23,031	0	23,031
Intergovernmental	654,825	224,145	878,970
Interfund	157,543	0	157,543
Prepaid Items	19,724	0	19,724
Total Assets	$4,021,571	$229,723	$4,251,294
Liabilities			
Accounts Payable	$48,947	$0	$48,947
Accrued Wages and Benefits	764,574	21,286	785,860
Intergovernmental Payable	126,006	1,664	127,670
Interfund Payable	0	157,543	157,543
Unearned Revenue	247,211	0	247,211
Total Liabilities	1,186,738	180,493	1,367,231
Deferred Inflows of Resources			
Unavailable Revenue	367,098	17,847	384,945
Fund Balances			
Nonspendable:			
Prepaid Items	19,724	0	19,724
Restricted for:			
Federal Programs	0	20,256	20,256
Other Purposes	0	11,127	11,127
Assigned to:			
Purchases on Order	536,613	0	536,613
Unassigned	1,911,398	0	1,911,398
Total Fund Balances	2,467,735	31,383	2,499,118
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$4,021,571	$229,723	$4,251,294

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2018

Total Governmental Fund Balances		$2,499,118
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.		1,504,562
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds:		
Grants	17,847	
Charges for Services	297,098	
Contributions and Donations	70,000	
Total		384,945
Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:		
Capital Leases	102,859	
Compensated Absences	237,437	
Total		(340,296)
The net pension / OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:		
Deferred Outflows - Pension	6,011,842	
Deferred Outflows - OPEB	247,165	
Net Pension Liability	(17,788,472)	
Net OPEB Liability	(4,223,063)	
Deferred Inflows - Pension	(835,530)	
Deferred Inflows - OPEB	(506,178)	
Total		(17,094,236)
Net Position of Governmental Activities		($13,045,907)

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	$684,812	$1,446,004	$2,130,816
Interest	16,026	0	16,026
Tuition and Fees	4,729,686	0	4,729,686
Gifts and Donations	35,000	0	35,000
Charges for Services	7,232,872	24,000	7,256,872
Miscellaneous	2,032	0	2,032
Total Revenues	12,700,428	1,470,004	14,170,432
Expenditures			
Current:			
Instruction:			
Regular	1,693,631	500,643	2,194,274
Special	2,310,068	314,794	2,624,862
Vocational	67,367	0	67,367
Student Intervention Services	14,348	0	14,348
Support Services:			
Pupil	3,394,326	81,204	3,475,530
Instructional Staff	1,988,116	287,522	2,275,638
Board of Education	30,420	0	30,420
Administration	990,686	100,000	1,090,686
Fiscal	374,624	0	374,624
Business	357,224	95,428	452,652
Operation and Maintenance of Plant	201,872	3,600	205,472
Central	306,556	0	306,556
Food Service Operations	0	81,210	81,210
Capital Outlay	272,597	0	272,597
Debt Service:			
Principal Retirement	10,561	0	10,561
Interest and Fiscal Charges	1,216	0	1,216
Total Expenditures	12,013,612	1,464,401	13,478,013
Excess of Revenues Over Expenditures	686,816	5,603	692,419
Other Financing Sources			
Inception of Capital Lease	106,000	0	106,000
Net Change in Fund Balances	792,816	5,603	798,419
Fund Balances Beginning of Year - Restated (Note 3)	1,674,919	25,780	1,700,699
Fund Balances End of Year	$2,467,735	$31,383	$2,499,118

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Reconciliation of the Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds		$798,419
Amounts reported for governmental activities in the Statement of Activities are different because		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	214,861	
Current Year Depreciation	(149,177)	
Total		65,684
Capital Assets removed from the capital asset account on the statement of net assets results in a gain or loss on disposal of capital assets on the statement of activities		(13,147)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds:		
Intergovernmental	(10,334)	
Contributions and Donations	(35,000)	
Charges for Services	(223,854)	
Total		(269,188)
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Capital Leases		10,561
Inception of capital leases are reported as other financing sources in the governmental funds, but the inception increases long term liabilities on the statement of activities		(106,000)
Some expenses reported in the Statement of Activities, such as compensated absences and vacation benefits payable do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences Payable		(74,310)
Contractually required contributions are reported as expenditures in the governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.		
Pension	1,095,152	
OPEB	46,188	
Total		1,141,340
Except for amounts reported as deferred inflows/outflows, changes in net pension/OPEB liability are reported as pension/OPEB expense in the Statement of Activities.		
Pension	4,934,294	
OPEB	525,166	
Total		5,459,460
Changes in Net Position of Governmental Activities		$7,012,819

See accompanying notes to the basic financial statements

East Central Ohio Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2018

	Agency
Assets	
Equity in Pooled Cash and Cash Equivalents	$1,267
Total Assets	$1,267
Liabilities	
Undistributed Monies	$1,267
Total Liabilities	$1,267

See accompanying notes to the basic financial statements

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

The East Central Ohio Educational Service Center (Educational Service Center) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed it by the constitution and laws of the State of Ohio and as defined by Section 3313.01 of the Ohio Revised Code. The Educational Service Center is a result of the August 1, 2009, merger of the Tuscarawas-Carroll-Harrison Educational Service Center and the Belmont County Educational Service Center, under the authority of the Ohio Revised Code Section 3311.057 and resolutions made by the Governing Boards.

The Educational Service Center operates under an elected seven-member Governing Board. This Board acts as the authorizing body for expenditures, policy and procedures and approves all financial activities. The Educational Service Center supplies supervisory, administrative and other needed services to participating school districts. The Educational Service Center is staffed by 129 non-certified employees and 152 certified employees to provide services to approximately 21,126 students in 16 districts throughout Tuscarawas, Carroll, Harrison and Belmont counties.

Reporting Entity

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the East Central Ohio Educational Service Center, this includes general operations and student related activities.

The Educational Service Center participates in the Ohio Mid-Eastern Regional Education Service Agency Information Technology Center Regional Council of Governments (OME-RESA) which is defined as a jointly governed organization. The Educational Service Center also participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), the Ohio School Plan (OSP), and the Ohio School Benefits Cooperative (OSBC), which are defined as insurance purchasing pools. These organizations are presented in Notes 16 and 17.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

The Educational Service 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.

Government-wide Financial Statements The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

The Statement of Net Position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

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

B. Fund Accounting

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

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

> **General Fund** - The General Fund accounts for and reports 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 and transferred according to the general laws of Ohio.

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

Proprietary Fund Type - Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. The Educational Service Center has no enterprise funds.

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

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, and all liabilities and deferred inflows of resources associated with the operation of the Educational Service Center are included on the Statement of Net Position. The Statement of Activities presents increases (revenues) and decreases (expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The agency fund is reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, in the recording of deferred inflows of resources, 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 Educational Service Center, available means expected to be received within 60 days of fiscal year end.

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

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

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 represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide Statement of Net Position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 10 and 11.

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 until that time. For the Educational Service Center, deferred inflows of resources include pension, OPEB plans and unavailable revenue. Unavailable revenue is reported only on the governmental funds Balance Sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants, contributions and donations, charges for services provided, and tuition and fees. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities fund on page 16. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 10 and 11)

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

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

E. Cash and Cash Equivalents

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

During fiscal year 2018, investments were limited to STAR Ohio.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Investment earnings are assigned to the general fund. Interest revenue credited to the general fund during fiscal year 2018 amounted to $16,026, none of which was assigned from other funds.

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

F. Receivables and Payables

Receivables and payables on the Educational Service Center's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable, systematic method of determining their existence, completeness, valuation, and in the case of receivables, collectability.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, 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 an expenditure/expense is reported in the year in which services are consumed.

H. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed/expended when used. Inventories consist of instructional materials held for resale. At June 30, 2018, the Educational Service Center had no significant expendable supplies held for resale.

I. Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position, but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center's capitalization threshold is $25,000 for land improvements and building and improvements and $5,000 for all other capital assets. 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. The Educational Service Center does not possess infrastructure.

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

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

J. Compensated Absences

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

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

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the funds from which these payments will be paid. At June 30, 2018, the Educational Service Center had no matured compensated absences payable.

K. Pensions/Other Postemployment Benefits (OPEB)

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

L. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and net pension liability that are paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

M. Internal Activity

Transfers within governmental activities are eliminated on the government-wide statements. No transfers were made during fiscal year 2018.

Internal allocations of overhead expenses from one program to another or within the same program are eliminated on the Statement of Activities. Payments for interfund services provided and used are not eliminated.

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.

N. Fund Balance

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

> ***Nonspendable:*** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.
>
> ***Restricted:*** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.
>
> ***Committed:*** The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action (resolution) of the Governing Board. Those committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for the use in satisfying those contractual requirements.

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

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

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

O. 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, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for local, federal, and state grants restricted for specified purposes.

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

P. Estimates

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

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE/RESTATEMENT OF FUND BALANCE AND NET POSITION

Changes in Accounting Principle

For fiscal year 2018, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 85, *Omnibus 2017*, Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions,* and related guidance from (GASB) Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).*

For fiscal year 2018, the Educational Service Center also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-1*. These changes were incorporated in the Educational Service Center's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). These changes were incorporated in the Educational Service Center's fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

Restatement of Fund Balance

The Educational Service Center restated the governmental fund balances to account for funds previously reported as agency funds which are more appropriately reported as governmental funds. The restatement had the following effect on fund balances.

	General	Other Nonmajor Governmental	Total
Fund Balance June 30, 2017	$1,546,489	$28,023	$1,574,512
Restatements:			
Cash and Cash Equivalents	84,312	(2,243)	82,069
Intergovernmental Receivable	44,118	0	44,118
Net Effect of Restatements	128,430	(2,243)	126,187
Fund Balance, Restated, June 30, 2017	$1,674,919	$25,780	$1,700,699

Restatement of Net Position

GASB 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement, along with the restatement of net position related to the reclassification of previously reported agency funds, had the following effect on net position as reported June 30, 2017:

	Governmental Activites	Fiduciary Funds
Net Position June 30, 2017	($15,131,483)	$0
Adjustments to Net Position:		
Net OPEB Liability	(5,094,355)	0
Deferred Outflow - Payments Subsequent to Measurement Date	40,925	0
Cash and Cash Equivalents	82,069	(82,069)
Intergovernmental Receivable	44,118	(44,118)
Intergovernmental Payable	0	126,187
Restated Net Position June 30, 2017	($20,058,726)	$0

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

The restatement for the reclassification of funds previously reported as agency funds had no effect on fiduciary net position, as agency funds have no net position (assets equal liabilities).

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

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

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

4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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

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

8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper for a period not to exceed two hundred seventy days in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

(Authorized investments may include investments in commercial paper and bankers acceptances with appropriate limitations if ORC training requirements have been met.)

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

Investments may only be made through specified dealers and institutions. 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2018, $1,151,235 of the Educational Service Center's total bank balance of $1,401,235 was exposed to custodial credit risk because those deposits were uninsured and collateralized with securities held by the pledging financial institution.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or be protected by:

Eligible securities pledged to the Educational Service Center and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2018, the Educational Service Center only had an investment of $2,077,591 in STAR Ohio, the State Treasurer's Investment Pool. This investment has an average maturity of 48.9 days.

Interest Rate Risk The Educational Service Center's investment policy addresses interest rate risk to the extent that it allows the Treasurer to invest funds to a maximum maturity of five years, and allows for the withdrawal of funds from approved public depositories or sale of negotiable instruments prior to maturity. State Statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center has no investment policy dealing with investment custodial risk beyond the requirement in State Statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

NOTE 5 - STATE FUNDING

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

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of $26.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to $6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

NOTE 6 - INTERFUND ACTIVITY

Interfund balances at June 30, 2018, consist of the following interfund receivable and payable

	Interfund Receivable
Interfund Payable	General Fund
Nonmajor Governmental Funds	$157,543

The loans made to the Nonmajor Governmental Funds were used to cover actual cash deficits until grant monies are received to operate the programs. The cash deficits were covered by cash and cash equivalents from the General Fund.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2018, consisted of accounts receivable and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivables, with the exception of the Belmont County Building Contributions, are expected to be collected within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Payments for Services	$328,868
St. Clairsville-Richland City School District Fox Run Agreement	239,300
Bureau of Workers' Compensation Rebate	16,657
Fox Run Meals Assistance	9,513
Belmont County School District's Building Contribution	70,000
Comprehensive Literacy - Striving Readers Grant	36,139
Title I Grant	72,850
21st Century Grant	105,643
Total	$878,970

Belmont County Building Contributions - In December 2015, seven Belmont County school districts signed an addendum to Service Agreement with the Educational Service Center. The School Districts wish to include additional services that the Educational Service Center will provide pursuant to Section 3313.845 of Ohio Revised Code. In consideration of the services contained in the addendum, the Educational Service Center purchased property to be used for the delivery of educational services to students served by the school districts. In consideration of the above, seven Belmont County school districts agreed to pay the sum of $5,000 per year for a period of five years, for a total payment of $25,000 per school district. At June 30, 2018 $70,000 remains outstanding with $35,000 due within one year.

St. Clairsville-Richland City School District / Fox Run - The Educational Service Center entered into an agreement with St. Clairsville-Richland City School District (the "District") for the operation of the Fox Run Center for Children and Adolescents. Under the agreement, the Educational Service Center provides funding, staffing, supervision, materials and other services necessary to provide education programs at Fox Run consistent with the standards of the Ohio Department of Education and continuing until termination of the Agreement under its terms.

The Educational Service Center will also ensure compliance with all State of Ohio Department of Education standards for such programs. The Educational Service Center will provide for the hiring, evaluation and supervision of all teachers and related service personnel and for the implementation and provision of such educational programs as are necessary, in accordance with State Law and standards adopted by the Ohio State Board of Education, and to provide the educational programs necessary to meet the needs of the students receiving their educational programs at Fox Run. Finally, the Educational Service Center will provide for specialized equipment, replacement equipment, materials, and supplies necessary to conduct educational programs in accordance with the State Department of Education standards. The amount reported as intergovernmental receivable at June 30, 2018 is $239,300.

NOTE 8 - CAPITAL ASSETS

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

	Balance 06/30/17	Additions	Deductions	Balance 06/30/18
Governmental activities:				
Nondepreciable Capital Assets:				
Land	$22,360	$37,586	$0	$59,946
Depreciable Capital Assets:				
Land improvements	90,914	59,500	0	150,414
Buildings and improvements	2,171,192	5,025	0	2,176,217
Furniture and equipment	671,677	112,750	(141,549)	642,878
Vehicles	101,768	0	0	101,768
Total Depreciable Capital Assets:	3,035,551	177,275	(141,549)	3,071,277
Accumulated Depreciation				
Land improvements	(79,550)	(7,471)	0	(87,021)
Buildings and improvements	(1,003,375)	(69,868)	0	(1,073,243)
Furniture and equipment	(467,209)	(62,274)	128,402	(401,081)
Vehicles	(55,752)	(9,564)	0	(65,316)
Total Accumulated Depreciation	(1,605,886)	(149,177)	128,402	(1,626,661)
Total Depreciable Capital Assets, Net	1,429,665	28,098	(13,147)	1,444,616
Governmental activities capital assets, net	$1,452,025	$65,684	($13,147)	$1,504,562

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$20,450
Support Services:	
Instructional Staff	45,874
Administration	61,571
Fiscal	1,538
Business	14,293
Operation and Maintenance	5,451
Total Depreciation Expense	$149,177

NOTE 9 - RISK MANAGEMENT

Property, Fleet, and General Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Educational Service Center contracted with The Hylant Insurance Company for commercial property insurance.

Building and Contents-replacement cost ($1,000 deductible)	$6,497,612
Automotive Liability ($500 deductible)	2,000,000
Uninsured Motorist ($500 deductible)	1,000,000
Medical Payments Limit	5,000
General Liability:	
Each Occurrence	2,000,000
Aggregated Limit	4,000,000
Employee Benefits Liability:	
Each Occurrence ($2,500 deductible)	2,000,000
Aggregated Limit	4,000,000
Employer's Liability:	
Each Occurrence	2,000,000
Disease - Each Employee	2,000,000
Disease - Limit	2,000,000
Legal Liability - Errors and Omission:	
Each Wrongful Act	2,000,000
Aggregate Limit	4,000,000
Sexual Misconduct Liability:	
Each Loss	2,000,000
Aggregate Limit	2,000,000

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

Workers' Compensation

For fiscal year 2018, the Educational Service Center participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all members within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to members that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

Health Care Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance for all full-time employees through the Unum Life Insurance Company of America, administered by Unum Provident, in the amount of $50,000 per employee. The Educational Service Center has elected to provide health care benefits to employees and administrators through the Ohio Schools Benefit Cooperative which is maintained by the Muskingum Valley Educational Service Center. The employees share the cost of the monthly premium with the board.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OBEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 11 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 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 years of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was $300,457 for fiscal year 2018. Of this amount $12,290 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was $794,695 for fiscal year 2018. Of this amount, $79,536 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability			
Prior Measurement Date	0.07108500%	0.05688500%	
Proportion of the Net Pension Liability			
Current Measurement Date	0.07484670%	0.05605737%	
Change in Proportionate Share	0.00376170%	-0.00082763%	
Proportionate Share of the Net			
Pension Liability	$4,471,925	$13,316,547	$17,788,472
Pension Expense	($146,025)	($4,788,269)	($4,934,294)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and			
actual experience	$192,456	$514,222	$706,678
Changes of assumptions	231,246	2,912,475	3,143,721
Changes in proportionate share and			
difference between Educational Service Center			
contributions and proportionate share of contributions	167,032	899,259	1,066,291
Educational Service Center contributions			
subsequent to the measurement date	300,457	794,695	1,095,152
Total Deferred Outflows of Resources	$891,191	$5,120,651	$6,011,842
Deferred Inflows of Resources			
Differences between expected and			
actual experience	$0	$107,326	$107,326
Net difference between projected and			
actual earnings on pension plan investments	21,227	439,462	460,689
Changes in proportionate share and			
Difference between Educational Service Center			
contributions and proportionate share of contributions	42,538	224,977	267,515
Total Deferred Inflows of Resources	$63,765	$771,765	$835,530

$1,095,152 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$199,340	$952,844	$1,152,184
2020	322,682	1,550,665	1,873,347
2021	109,196	874,295	983,491
2022	(104,249)	176,387	72,138
Total	$526,969	$3,554,191	$4,081,160

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
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 Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	$6,205,870	$4,471,925	$3,019,393

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that 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. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	$19,088,819	$13,316,547	$8,454,276

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Retirement System. As of June 30, 2018, five member of the Governing Board has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 11 – DEFINED BENEFIT OPEB PLANS

See Note 10 for a description of the net OPEB liability

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Educational Service Center's surcharge obligation was $35,060.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was $46,188 for fiscal year 2018. Of this amount $35,515 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.07199520%	0.05688500%	
Proportion of the Net OPEB Liability Current Measurement Date	0.07586100%	0.05605737%	
Change in Proportionate Share	0.00386580%	-0.00082763%	
Proportionate Share of the Net			
OPEB Liability	$2,035,911	$2,187,152	$4,223,063
OPEB Expense	$148,558	($673,724)	($525,166)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$0	$126,256	$126,256
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	74,721	0	74,721
Educational Service Center contributions subsequent to the measurement date	46,188	0	46,188
Total Deferred Outflows of Resources	$120,909	$126,256	$247,165
Deferred Inflows of Resources			
Changes of assumptions	$193,197	$176,182	$369,379
Net difference between projected and actual earnings on OPEB plan investments	5,376	93,484	98,860
Changes in Proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	0	37,939	37,939
Total Deferred Inflows of Resources	$198,573	$307,605	$506,178

$46,188 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	($44,270)	($38,015)	($82,285)
2020	(44,270)	(38,015)	(82,285)
2021	(33,968)	(38,015)	(71,983)
2022	(1,344)	(38,015)	(39,359)
2023	0	(14,644)	(14,644)
Thereafter	0	(14,645)	(14,645)
Total	($123,852)	($181,349)	($305,201)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 10.

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's proportionate share of the net OPEB liability	$2,458,620	$2,035,911	$1,701,015

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Educational Service Center's proportionate share of the net OPEB liability	$1,651,988	$2,035,911	$2,544,037

Actuarial Assumptions – STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

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

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 10.

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Educational Service Center's proportionate share of the net OPEB liability	$2,936,216	$2,187,152	$1,595,146

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's proportionate share of the net OPEB liability	$1,519,539	$2,187,152	$3,065,808

NOTE 12 - EMPLOYEE BENEFITS

Compensated Absences

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

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 45 days. Any employee receiving such payment must meet the retirement provisions set by STRS Ohio or SERS.

NOTE 13 - CAPITAL LEASE – LESSEE DISCLOSURE

During fiscal year 2018 and in prior years, the Educational Service Center entered into capitalized leases for copying equipment. Capital lease payments have been reclassified from functional expenditures and are reflected as debt service expenditures in the basic financial statements for the governmental funds.

Assets acquired by governmental activities outstanding capitalized leases are reported net of accumulated depreciation in the amount of $103,333. Principal payments in fiscal year 2018 totaled $10,561 in the governmental funds.

Future minimum lease payments are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	$19,378	$4,502	$23,880
2020	20,326	3,554	23,880
2021	21,321	2,559	23,880
2022	22,364	1,516	23,880
2023	19,470	430	19,900
Total	$102,859	$12,561	$115,420

NOTE 14 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2018 were as follows:

	Outstanding 6/30/2017	Additions	Deletions	Outstanding 6/30/2018	Due Within One Year
Governmental Activities:					
Net Pension Liability:					
SERS	$5,202,766	$0	$730,841	$4,471,925	$0
STRS	19,041,124	0	5,724,577	13,316,547	0
Total Net Pension Liability	24,243,890	0	6,455,418	17,788,472	0
Net OPEB Liability:					
SERS	2,052,130	0	16,219	2,035,911	0
STRS	3,042,225	0	855,073	2,187,152	0
Total Net OPEB Liability	5,094,355	0	871,292	4,223,063	0
Capital Leases	7,420	106,000	10,561	102,859	19,378
Compensated Absences	163,127	81,884	7,574	237,437	125,230
Total Governmental Activities Long Term Liabilities	$29,508,792	$187,884	$7,344,845	$22,351,831	$144,608

The capital lease will be paid from the General Fund. Compensated absences will be paid from the General Fund.

There is no repayment schedule for the net pension liability or net OPEB liability. However, employer pension and OPEB contributions are made from the General Fund and various grant funds. For additional information related to the net pension liability and the net OPEB liability see notes 10 and 11 respectively.

NOTE 15 - COMMITMENTS

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General	$536,613
Other Nonmajor Governmental Funds	1,020
Total	$537,633

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments (OME-RESA) - The Educational Service Center participates in the Ohio Mid-Eastern Regional Educational Service Agency Information Technology Center Regional Council of Governments. OME-RESA was created as a separate regional council of governments pursuant to State Statutes. OME-RESA operates under the direction of a Board comprised of a representative from each participating school district. The Board exercises total control over the operations of OME-RESA including budgeting, appropriating, contracting, and designating management. Each participants control is limited to its representation on the Board. OME-RESA provides information technology and internet access to member districts, as well as cooperative purchasing programs. During fiscal year 2018, the total amount paid to OME-RESA from the Educational Service Center was $31,182 for technology services, financial accounting services and educational management information. The Jefferson County Educational Service Center serves as the fiscal agent. To obtain financial information write to Ohio Mid-Eastern Regional Educational Service Agency, Treasurer, at 2230 Sunset Blvd. Suite 2, Steubenville, Ohio 43952.

NOTE 17 - PUBLIC ENTITY POOL

Ohio School Boards Association Workers' Compensation Group Rating Program (GRP) - The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Program, an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the Ohio School Boards Association (OSBA). The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program. The Educational Service Center's enrollment fee of $700 for policy year 2018 was paid to Muskingum Valley Educational Service Center.

Ohio School Plan (OSP) – The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of Directors consisting of school district superintendents and treasurers, as well as the president of Hylant Administrative Services and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Hylant Administrative Service is the sales and marketing representative, which establishes agreements between OSP and member schools.

Ohio School Benefits Cooperative (OSBC)- The Educational Service Center participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool composed of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees and the eligible dependents, and designated beneficiaries of such employees, and propose to have certain other eligible Educational Service Center or groups of Educational Service Centers join them for the same purposes. Participants pay a $500 membership fee to OSBC. OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual/Antares is the Administrator of the OSBC. The Educational Service Center participates in the joint insurance purchasing program for medical, prescription drug, and dental coverage.

NOTE 18 - CONTINGENCIES

Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2018.

Litigation

The Educational Service Center is currently not a party to any legal proceedings.

Required

Supplementary

Information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

*Last Five Fiscal Years (1) **

	2018	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.07484670%	0.07108500%	0.07053810%	0.07361000%	0.07361000%
Educational Service Center's Proportionate Share of the Net Pension Liability	$4,471,925	$5,202,766	$4,024,972	$3,725,360	$4,377,350
Educational Service Center's Covered Payroll	$2,300,593	$2,216,300	$2,123,566	$2,138,968	$2,177,327
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	194.38%	234.75%	189.54%	174.17%	201.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to required supplementary information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio

*Last Five Fiscal Years (1) **

	2018	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.05605737%	0.05688500%	0.05542284%	0.04972006%	0.04972006%
Educational Service Center's Proportionate Share of the Net Pension Liability	$13,316,547	$19,041,124	$15,317,252	$12,093,639	$14,405,864
Educational Service Center's Covered Payroll	$5,937,236	$6,162,321	$5,922,271	$5,080,015	$5,045,400
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	224.29%	308.99%	258.64%	238.06%	285.52%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to required supplementary information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability

School Employees Retirement System of Ohio

*Last Two Fiscal Years (1)**

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.07586100%	0.07199520%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$2,035,911	$2,052,130
Educational Service Center's Covered Payroll	$2,300,593	$2,216,300
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	88.50%	92.59%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior year end.

See accompanying notes to required supplementary information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability

State Teachers Retirement System of Ohio

*Last Two Fiscal Years (1)**

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.05605737%	0.05688500%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$2,187,152	$3,042,225
Educational Service Center's Covered Payroll	$5,937,236	$6,162,321
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	36.84%	49.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

* Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior year end.

See accompanying notes to required supplementary information

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of Educational Service Center Contributions

School Employees Retirement System of Ohio

Last Ten Fiscal Years

	2018	2017	2016
Net Pension Liability			
Contractually Required Contribution	$300,457	$322,083	$310,282
Contributions in Relation to the Contractually Required Contribution	(300,457)	(322,083)	(310,282)
Contribution Deficiency (Excess)	$0	$0	$0
Educational Service Center's Covered Payroll (1)	$2,225,607	$2,300,593	$2,216,300
Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%
Net OPEB Liability			
Contractually Required Contribution (2)	46,188	40,925	36,252
Contributions in Relation to the Contractually Required Contribution	(46,188)	(40,925)	(36,252)
Contribution Deficiency (Excess)	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	2.08%	1.78%	1.64%
Total Contributions as a Percentage of Covered Payroll (2)	15.58%	15.78%	15.64%

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.
(2) Includes Surcharge

See accompanying notes to required supplementary information

2015	2014	2013	2012	2011	2010	2009
$279,886	$296,461	$301,342	$257,660	$210,994	$195,498	$110,440
(279,886)	(296,461)	(301,342)	(257,660)	(210,994)	(195,498)	(110,440)
$0	$0	$0	$0	$0	$0	$0
$2,123,566	$2,138,968	$2,177,327	$1,915,688	$1,678,552	$1,443,855	$1,122,358
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
53,649	39,927	39,750	42,386	51,438	23,824	67,657
(53,649)	(39,927)	(39,750)	(42,386)	(51,438)	(23,824)	(67,657)
$0	$0	$0	$0	$0	$0	$0
2.53%	1.87%	1.83%	2.21%	3.06%	1.65%	6.03%
15.71%	15.73%	15.67%	15.66%	15.63%	15.19%	15.87%

East Central Ohio Educational Service Center

Required Supplementary Information

Schedule of Educational Service Center Contributions

State Teachers Retirement System of Ohio

Last Ten Fiscal Years

	2018	2017	2016
Net Pension Liability			
Contractually Required Contribution	$794,695	$831,213	$862,725
Contributions in Relation to the Contractually Required Contribution	(794,695)	(831,213)	(862,725)
Contribution Deficiency (Excess)	$0	$0	$0
Educational Service Center's Covered Payroll (1)	$5,676,393	$5,937,236	$6,162,321
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%
Net OPEB Liability			
Contractually Required Contribution	0	0	0
Contributions in Relation to the Contractually Required Contribution	0	0	0
Contribution Deficiency (Excess)	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%
Total Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%

(1) The Educational Service Center's covered payroll is the same for pension and OPEB

See accompanying notes to required supplementary information

2015	2014	2013	2012	2011	2010	2009
$829,118	$660,402	$655,902	$566,494	$522,298	$519,268	$451,465
(829,118)	(660,402)	(655,902)	(566,494)	(522,298)	(519,268)	(451,465)
$0	$0	$0	$0	$0	$0	$0
$5,922,271	$5,080,015	$5,045,400	$4,357,646	$4,017,677	$3,994,369	$3,472,808
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
0	50,800	50,454	43,576	40,177	39,944	34,728
0	(50,800)	(50,454)	(43,576)	(40,177)	(39,944)	(34,728)
$0	$0	$0	$0	$0	$0	$0
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00% 0	14.00%	14.00%	14.00%

Net Pension Liability

Changes in Assumptions – SERS

For fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

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

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

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

Changes in Assumptions - STRS

Amounts reported for fiscal year 2018 incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2017 and prior are presented below:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Net OPEB Liability

Changes in Assumptions – SERS

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

Municipal Bond Index Rate:	
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75 percent to 7.45 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Also for fiscal year 2018, the subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

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 Nutrition Cluster:			
School Breakfast Program	10.553	N/A	$35,051
National School Lunch Program	10.555	N/A	61,611
Total Child Nutrition Cluster			96,662
Total U.S. Department of Agriculture			96,662
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A160035	53,589
		S010A170035	201,839
Total Title I Grants to Local Educational Agencies			255,428
Special Education Cluster:			
Special Education - Preschool Grants (IDEA Preschool)	84.173	H173A170119	66,520
21st Century Community Learning Centers	84.287	S287C170035	1,000,000
Comprehensive Literacy Development - Striving Readers Grant	84.371	N/A	1,495
Total U.S. Department of Education			1,323,443
Total Expenditures of Federal Awards			**$1,420,105**

The accompanying notes are an integral part of this Schedule.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of East Central Ohio Educational Service Center (the Educational Service Center) under programs of the federal government for the year ended June 30, 2018. 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 Educational Service Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the East Central Ohio Educational Service 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.

NOTE C – INDIRECT COST RATE

The Educational Service Center has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

The Educational Service Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Educational Service Center assumes it expends federal monies first.

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

East Central Ohio Educational Service Center
Tuscarawas County
834 East High Avenue
New Philadelphia, Ohio 44663

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the East Central Ohio Educational Service Center, Tuscarawas County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated February 12, 2019, wherein we noted the Educational Service Center adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber
Auditor of State
Columbus, Ohio

February 12, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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

East Central Ohio Educational Service Center
Tuscarawas County
834 East High Avenue
New Philadelphia, Ohio 44663

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the East Central Ohio Educational Service Center's, Tuscarawas County, Ohio (the Educational Service 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 East Central Ohio Educational Service Center's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying Schedule of Findings identifies the Educational Service Center's major federal program.

Management's Responsibility

The Educational Service 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 Educational Service Center's compliance for the Educational Service Center's major federal program 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 Educational Service 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 Educational Service Center's major program. However, our audit does not provide a legal determination of the Educational Service Center's compliance.

Opinion on the Major Federal Program

In our opinion, the East Central Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The Educational Service 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 Educational Service 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 the 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 Educational Service 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.

Keith Faber
Auditor of State
Columbus, Ohio

February 12, 2019

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER
TUSCARAWAS COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018

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)?**	No
(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):** • Twenty-First Century Community Learning Centers – CFDA #84.287	
(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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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…Helping Schools Help Children in Tuscarawas, Carroll, Harrison and Belmont Counties…

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
June 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	GAAP Financial Reporting	Partially Corrected	See Management Letter

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OHIO AUDITOR OF STATE
KEITH FABER

EAST CENTRAL OHIO EDUCATIONAL SERVICE CENTER

TUSCARAWAS 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
FEBRUARY 26, 2019