HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

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OHIO AUDITOR OF STATE
KEITH FABER

INDEPENDENT AUDITOR'S REPORT

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

To the Governing Body:

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center, Hamilton County, Ohio (the Center), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center, Hamilton County, Ohio, as of June 30, 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 18 to the financial statements, during fiscal year 2018 the Center adopted new accounting guidance in Governmental Accounting Standard 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, required budgetary comparison schedules, 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 Center's basic financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio
March 22, 2019

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

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net Position of governmental activities increased $33,304,417 which represents a 46% increase from 2017.

- General revenues accounted for $3,227,720 in revenue or 5% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for $56,506,966 or 95% of total revenues of $59,734,686.

- The Center had $26,430,269 in expenses related to governmental activities; $56,506,966 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $3,227,720 were also used to provide for these programs.

Overview of the Financial Statements

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's most significant funds with all other nonmajor funds presented in total in one column. Major funds include the General, Head Start, and the Capital Project Fund.

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2018 compared to 2017:

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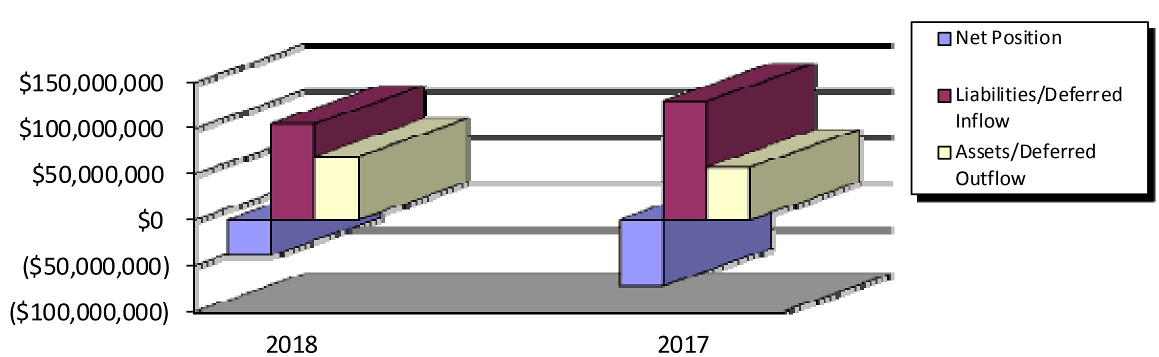
Table 1
Net Position

	Governmental Activities	
	2018	2017-Restated
Assets:		
Current and Other Assets	$35,593,228	$31,732,252
Capital Assets	3,046,758	2,865,990
Total Assets	38,639,986	34,598,242
Deferred Outflows of Resources:		
Pension	26,549,147	22,771,813
OPEB	1,099,120	79,439
Total Deferred Outflows of Resources	27,648,267	22,851,252
Liabilities:		
Other Liabilities	6,551,840	5,883,734
Long-Term Liabilities	93,873,235	123,641,846
Total Liabilities	100,425,075	129,525,580
Deferred Inflows of Resources:		
Pension	2,677,886	0
OPEB	1,956,961	0
Total Deferred Inflows of Resources	4,634,847	0
Net Position:		
Net Investment in Capital Assets	1,226,758	986,990
Restricted	2,738,484	1,926,481
Unrestricted	(42,736,911)	(74,989,557)
Total Net Position	($38,771,669)	($72,076,086)



The net pension liability (NPL) is the largest single liability reported by the 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 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 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 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 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 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 Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($50,436,927) to ($72,076,086).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the Center's liabilities and deferred inflows exceeded assets and deferred outflows by $38,771,669.

At year-end, capital assets represented 8% of total assets. Capital assets include land, buildings and improvements, construction in progress, and equipment. Net investment in capital assets at June 30, 2018, was $1,226,758. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, $2,738,484 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets increased from 2018 to 2017 mainly due to an increase in cash and cash equivalents. Long-term liabilities decreased mainly due to a decrease in Net Pension Liability.

Table 2 shows the changes in net position for fiscal years 2018 and 2017.

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Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues:		
Program Revenues		
Charges for Services	$43,495,957	$41,332,168
Operating Grants, Contributions	13,011,009	10,654,802
General Revenues:		
Grants and Entitlements	2,966,559	3,127,453
Other	261,161	110,418
Total Revenues	59,734,686	55,224,841
Expenses:		
Instruction	3,505,799	7,636,132
Support Services:		
Pupil and Instructional Staff	11,298,423	24,520,852
School Administrative, General Administration, Fiscal and Business	3,222,970	7,428,485
Operations and Maintenance	492,117	1,375,087
Central	145,506	1,607,963
Operation of Non-Instructional Services	7,674,306	15,588,558
Interest and Fiscal Charges	91,148	94,000
Total Expenses	26,430,269	58,251,077
Change in Net Position	33,304,417	(3,026,236)
Net Position - Beginning of Year, Restated	(72,076,086)	N/A
Net Position - End of Year	($38,771,669)	($72,076,086)

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 $79,439 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 $4,623,656. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

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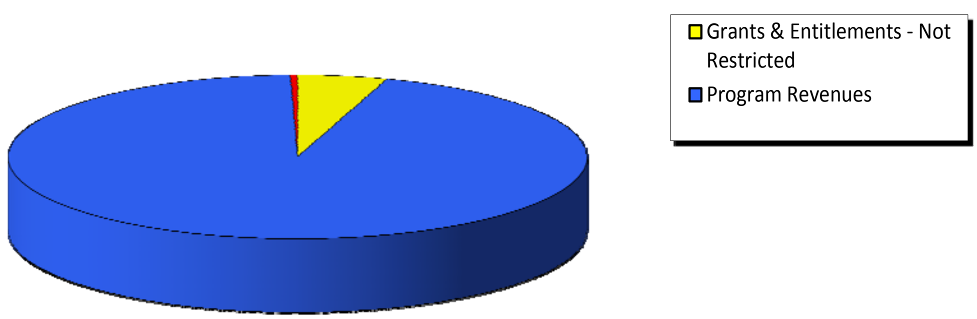
Total 2018 operating expenses under GASB 75	$26,430,269
Negative OPEB expense under GASB 75	4,623,656
2018 contractually required contribution	127,820
Adjusted 2018 operating expenses	31,181,745
Total 2017 operating expenses under GASB 45	58,251,077
Change in operating expenses not related to OPEB	($27,069,332)

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

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

Governmental Activities
Revenue Sources

	2018	Percentage
Grants & Entitlements - Not Restricted	$2,966,559	5.0%
Program Revenues	56,506,966	94.6%
Other Revenues	261,161	0.4%
Total Revenue Sources	$59,734,686	100.0%



Instruction comprises 13% of governmental program expenses. Support services expenses were 57% of governmental program expenses. All other expenses including interest expense and fiscal charges were 30%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Grants and entitlements revenue decreased from 2017 mainly due to the decrease of state funding the Center received in fiscal year 2018 compared to fiscal year 2017. Overall expenses for the current fiscal year decreased when compared to 2017 primarily due to changes related to the net pension liability and other post employment benefits liability.

Governmental Activities

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	$3,505,799	$7,636,132	$3,454,075	($721,673)
Support Services:				
Pupil and Instructional Staff	11,298,423	24,520,852	12,777,697	(1,190,149)
School Administrative, General				
Administration, Fiscal and Business	3,222,970	7,428,485	4,546,789	(321,458)
Operations and Maintenance	492,117	1,375,087	(13,716)	(845,139)
Central	145,506	1,607,963	985,610	(519,476)
Operation of Non-Instructional Services	7,674,306	15,588,558	8,417,390	(2,572,212)
Interest and Fiscal Charges	91,148	94,000	(91,148)	(94,000)
Total Expenses	$26,430,269	$58,251,077	$30,076,697	($6,264,107)

The Center's Major Funds

The Center has three major governmental funds: the General Fund, Head Start, and Capital Projects. Assets of the General Fund comprised $22,637,713 (61%), Head Start comprised $3,631,119 (10%), and Capital Projects comprised $8,283,750 (22%) of the total $36,978,311 governmental fund assets.

General Fund: Fund balance at June 30, 2018 was $15,539,069, including $14,921,483 of unassigned balance. Fund balance increased $1,900,407 from 2017. The fund balance increased mainly due to an increase in contract service revenue.

Head Start Fund: Fund balance at June 30, 2018 was $459,467. The fund balance increased $216,244 from 2017 to 2018. The primary reason for the increase in fund balance was mainly due to the increase in intergovernmental revenue.

Capital Projects: Fund balance at June 30, 2018 was $8,283,750. The fund balance increased $1,000,000 from 2017 to 2018. The primary reason for the increase in fund balance was due to a transfer of monies from the General Fund.

General Fund Budgeting Highlights

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

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

For the General Fund, budget final basis revenue was $45,339,985 compared to the original budget estimates of $46,192,285. Of the $852,300 difference, most was due to overestimates for charges for services and intergovernmental revenues for fiscal year 2018.

For the General Fund, budget final basis expenditures were $43,844,914, compared to the original budget estimates of $44,368,276. Of the $523,362 difference, most was due to overestimating instruction and support services expenditures for fiscal year 2018.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2018, the Center had $3,046,758 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2018 balances compared to 2017:

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

	Governmental Activities	
	2018	2017
Land	$1,398,750	$1,398,750
Construction in Progress	197,396	0
Buildings and Improvements	917,470	950,789
Equipment	533,142	516,451
Total Net Capital Assets	$3,046,758	$2,865,990

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

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

Debt

At June 30, 2018, the Center had $1,820,000 in debt outstanding, $61,000 due within one year.

Table 5 summarizes debt outstanding.

Table 5
Outstanding Debt, at Year-End

	Governmental Activities	
	2018	2017
HCESC Building Capital Lease	$1,820,000	$1,879,000

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

For the Future

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

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

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

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

Contacting the Center's Financial Management

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

Hamilton County Educational Service Center
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	$28,552,060
Receivables:	
Accounts	3,475,997
Interest	29,026
Intergovernmental	3,321,019
Loan	100,000
Prepaids	108,025
Inventory	7,101
Nondepreciable Capital Assets	1,596,146
Depreciable Capital Assets, Net	1,450,612
Total Assets	38,639,986
Deferred Outflows of Resources:	
Pension	26,549,147
OPEB	1,099,120
Total Deferred Outflows of Resources	27,648,267
Liabilities:	
Accounts Payable	207,382
Accrued Wages and Benefits	6,337,496
Accrued Interest Payable	6,962
Long-Term Liabilities:	
Due Within One Year	264,000
Due In More Than One Year	
Net Pension Liability	71,837,943
Net OPEB Liability	16,029,842
Other Amounts	5,741,450
Total Liabilities	100,425,075
Deferred Inflows of Resources:	
OPEB	1,956,961
Pension	2,677,886
Total Deferred Inflows of Resources	4,634,847
Net Position:	
Net Investment in Capital Assets	1,226,758
Restricted for:	
Special Education	224,737
Other State Grants	73,513
Head Start	1,549,736
Other Federal Grants	146,909
Other Grants	743,589
Unrestricted	(42,736,911)
Total Net Position	($38,771,669)

See accompanying notes to the basic financial statements.

Hamilton County Educational 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:				
Special	$3,505,799	$6,885,198	$57,434	$3,436,833
Vocational	0	17,242	0	17,242
Support Services:				
Pupil	5,122,267	11,024,970	0	5,902,703
Instructional Staff	6,176,156	10,233,345	2,817,805	6,874,994
General Administration	48,192	49,780	0	1,588
School Administration	2,036,775	5,260,084	412,390	3,635,699
Fiscal	572,625	843,245	456,791	727,411
Business	565,378	747,469	0	182,091
Operations and Maintenance	492,117	353,133	125,268	(13,716)
Central	145,506	1,108,097	23,019	985,610
Operation of Non-Instructional Services	7,674,306	6,973,394	9,118,302	8,417,390
Interest and Fiscal Charges	91,148	0	0	(91,148)
Totals	$26,430,269	$43,495,957	$13,011,009	30,076,697

General Revenues:	
Grants and Entitlements, Not Restricted	2,966,559
Investment Earnings	124,367
Other Revenues	136,794
Total General Revenues	3,227,720
Change in Net Position	33,304,417
Net Position - Beginning of Year, Restated	(72,076,086)
Net Position - End of Year	($38,771,669)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2018

	General	Head Start	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	$17,566,290	$738,781	$8,283,750	$1,963,239	$28,552,060
Receivables:					
Accounts	3,458,276	12,855	0	4,866	3,475,997
Interest	29,026	0	0	0	29,026
Intergovernmental	0	2,867,814	0	453,205	3,321,019
Loan	100,000	0	0	0	100,000
Interfund	1,385,083	0	0	0	1,385,083
Prepaids	91,937	11,669	0	4,419	108,025
Inventory	7,101	0	0	0	7,101
Total Assets	22,637,713	3,631,119	8,283,750	2,425,729	36,978,311
Liabilities:					
Accounts Payable	159,983	40,023	0	7,376	207,382
Accrued Wages and Benefits	5,393,687	684,597	0	259,212	6,337,496
Compensated Absences	121,778	0	0	8,454	130,232
Interfund Payable	0	1,010,548	0	374,535	1,385,083
Total Liabilities	5,675,448	1,735,168	0	649,577	8,060,193
Deferred Inflows of Resources:					
Grants	0	1,436,484	0	429,847	1,866,331
Unavailable Revenue	1,404,833	0	0	0	1,404,833
Investment Earnings	18,363	0	0	0	18,363
Total Deferred Inflows of Resources	1,423,196	1,436,484	0	429,847	3,289,527
Fund Balances:					
Nonspendable	99,038	11,669	0	4,419	115,126
Restricted	0	447,798	0	972,912	1,420,710
Committed	100,000	0	0	0	100,000
Assigned	418,448	0	8,283,750	387,561	9,089,759
Unassigned	14,921,583	0	0	(18,587)	14,902,996
Total Fund Balances	15,539,069	459,467	8,283,750	1,346,305	25,628,591
Total Liabilities, Deferred Inflows and Fund Balances	$22,637,713	$3,631,119	$8,283,750	$2,425,729	$36,978,311

See accompanying notes to the basic financial statements

Hamilton County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
June 30, 2018

Total Governmental Fund Balances		$25,628,591
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		3,046,758
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Accounts Receivable	1,304,833	
Interest	18,363	
Intergovernmental	1,866,331	
Other Receivables	100,000	
		3,289,527
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		(6,962)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(4,055,218)
Deferred outflows and inflows or resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	26,549,147	
Deferred inflows of resources related to pensions	(2,677,886)	
Deferred outflows of resources related to OPEB	1,099,120	
Deferred inflows of resources related to OPEB	(1,956,961)	
Deferred outflows of resources related to pensions		23,013,420
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(71,837,943)	
Net OPEB Liability	(16,029,842)	
Other Amounts	(1,820,000)	
		(89,687,785)
Net Position of Governmental Activities		($38,771,669)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Head Start	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Tuition and Fees	$724,952	$0	$0	$0	$724,952
Investment Earnings	125,226	0	0	0	125,226
Intergovernmental	2,966,559	8,483,503	0	3,864,802	15,314,864
Charges for Services	0	0	0	363,513	363,513
Contract Services	42,582,554	0	0	0	42,582,554
Other Revenues	129,294	0	0	7,500	136,794
Total Revenues	46,528,585	8,483,503	0	4,235,815	59,247,903
Expenditures:					
Current:					
Instruction:					
Special	7,200,064	0	0	68,297	7,268,361
Vocational	16,921	0	0	0	16,921
Support Services:					
Pupil	11,580,252	0	0	0	11,580,252
Instructional Staff	9,066,831	0	0	3,470,933	12,537,764
General Administration	52,246	0	0	0	52,246
School Administration	4,738,389	311,639	0	283,373	5,333,401
Fiscal	870,958	249,234	0	157,021	1,277,213
Business	809,908	0	0	0	809,908
Operations and Maintenance	390,536	0	0	130,000	520,536
Central	1,154,432	0	0	24,858	1,179,290
Operation of Non-Instructional Services	7,325,967	7,706,386	0	367,085	15,399,438
Capital Outlay	271,301	0	0	0	271,301
Debt Service:					
Principal Retirement	59,000	0	0	0	59,000
Interest and Fiscal Charges	91,373	0	0	0	91,373
Total Expenditures	43,628,178	8,267,259	0	4,501,567	56,397,004
Excess of Revenues Over (Under) Expenditures	2,900,407	216,244	0	(265,752)	2,850,899
Other Financing Sources (Uses):					
Transfers In	0	0	1,000,000	0	1,000,000
Transfers (Out)	(1,000,000)	0	0	0	(1,000,000)
Total Other Financing Sources (Uses)	(1,000,000)	0	1,000,000	0	0
Net Change in Fund Balance	1,900,407	216,244	1,000,000	(265,752)	2,850,899
Fund Balance - Beginning of Year	13,638,662	243,223	7,283,750	1,612,057	22,777,692
Fund Balance - End of Year	$15,539,069	$459,467	$8,283,750	$1,346,305	$25,628,591

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balance - Total Governmental Funds		$2,850,899
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	319,593	
Depreciation Expense	(138,825)	
		180,768
Governmental funds report district pension and OPEB contributions as expenditures. However in the Statement of Activites, the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.		
District pension contributions	5,109,232	
Cost of benefits earned net of employee contrbutions - Pension	20,360,153	
District OPEB contributions	127,820	
Cost of benefits earned net of employee contrbutions - OPEB	4,623,656	
		30,220,861
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Accounts	(175,061)	
Interest	(859)	
Intergovernmental	662,703	
Other	(100,000)	
		386,783
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		59,000
In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due.		225
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated Absences		(394,119)
Change in Net Position of Governmental Activities		$33,304,417

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center
Statement of Assets and Liabilities
Fiduciary Fund
June 30, 2018

	Agency
Assets:	
Equity in Pooled Cash and Investments	$3,450,721
Receivables:	
Accounts	194,949
Total Assets	3,645,670
Liabilities:	
Accounts Payable	564,125
Other Liabilities	3,081,545
Total Liabilities	$3,645,670

See accompanying notes to the basic financial statements.

Note 1 - Description of the Center

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

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

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

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

Reporting Entity

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

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

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

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

The Center included no component units in the financial report.

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

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

Note 2 - Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

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

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

Fiduciary Funds

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Center, deferred outflows of resources includes pension and other post employment benefits. These amounts are reported on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 8 and 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include grants, investment earnings, pension, OPEB, and unavailable revenues. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Grants and investment earnings have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows related to pension and OPEB are reported on the governmental-wide statement of net position. See Notes 8 and 9 for more pension and OPEB related information.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

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

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

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

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

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

Inventory

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

Prepaid Items

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Center maintains a capitalization threshold of $2,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

Compensated absences are recognized in governmental fund financial statements, when they are due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.
The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

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

Sick Leave	**Certified**	**Administrators**	**Non-Certificated**
Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4days per/month of employment (15 days per year)
Maximum Accumulation	250	250	250
Vested	As Earned	As Earned	As Earned
Vacation	**Certified**	**Administrators**	**Non-Certificated**
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.

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 position have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

Net Position

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

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's $2,738,484 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

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

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

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

Fund Balance

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

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

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

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

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

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

The Center 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 amounts in any of the unrestricted fund balance classifications could be used.

Estimates

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Ohio law permits interim monies to be invested or deposited in the following securities:

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

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

(3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such

obligations, provided that investments in securities described in this division are made only through eligible institutions.

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

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

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

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

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

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, 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.

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2018, 18,077,711 of the Center's bank balance of $18,327,711 was exposed to custodial credit risk because it was uninsured and collateralized.

The 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 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% 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% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2018, the Center had the following investments:

	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
Stocks*	$75,250	Level 1	0.00
Money Market Funds	1,046,583	N/A	0.00
Federal Home Loan Bank	1,698,329	Level 2	3.28
Federal Farm Credit Bank	980,715	Level 2	2.04
Federal Home Loan Mortgage Corporation	520,234	Level 2	0.14
Commercial Paper	3,191,508	Level 2	0.19
Federal National Mortgage Association	1,366,119	Level 2	1.23
Negotiable CDs	3,886,067	Level 2	0.81
U.S. Treasury Notes	587,373	Level 1	0.42
U.S. Treasury Bill	1,794,709	Level 1	1.18
	$15,146,887		
Portfolio Weighted Average Maturity			1.02

*The amount of $75,250 was donated stock by a private individual.

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Center's recurring fair value measurements as of June 30, 2018. All investments of the Center are valued using quoted market prices.

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

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

Concentration of Credit Risk – The Center places no limit on the amount it may invest in any one issuer. 1% of the Center's investments at fiscal year end were in Stock, 7% in Money Market Funds, 11% in Federal Home Loan Bank, 3% in Federal Home Loan Mortgage Corporation, 9% in Federal National Mortgage Association, 6% in Federal Farm Credit Bank, 21% in Commercial Paper, 26% in Negotiable CDs, 4% in U.S. Treasury Notes, and 12% in U.S. Treasury Bills.

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

Note 4 – Receivables

Receivables at June 30, 2018, consisted of accounts, interest, intergovernmental grants, loan and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Note 5 - Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$1,398,750	$0	$0	$1,398,750
Construction in Progress	0	197,396	0	197,396
Capital Assets, Being Depreciated				
Buildings and Improvements	1,232,893	0	0	1,232,893
Equipment	2,203,086	122,197	148,973	2,176,310
Totals at Historical Cost	4,834,729	319,593	148,973	5,005,349
Less Accumulated Depreciation:				
Buildings and Improvements	282,104	33,319	0	315,423
Equipment	1,686,635	105,506	148,973	1,643,168
Total Accumulated Depreciation	1,968,739	138,825	148,973	1,958,591
Governmental Activities Capital Assets, Net	$2,865,990	$180,768	$0	$3,046,758

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$36,467
Support Services:	
Instructional Staff	28,042
General Administration	11,524
School Administration	13,053
Business	1,221
Operations and Maintenance	21,942
Operation of Non-Instructional Services	26,576
Total Depreciation Expense	$138,825

Note 6 - Long-Term Liabilities

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Capital Lease Payable	$1,879,000	$0	$59,000	$1,820,000	$61,000
Compensated Absences	3,836,368	691,724	342,642	4,185,450	203,000
Subtotal Capital Leases and Other Amounts	5,715,368	691,724	401,642	6,005,450	264,000
Net Pension Liability:					
STRS	75,364,512	0	19,586,708	55,777,804	0
SERS	20,843,368	0	4,783,229	16,060,139	0
Subtotal Net Pension Liability	96,207,880	0	24,369,937	71,837,943	0
Net OPEB Liability:					
STRS	12,041,084	0	2,879,962	9,161,122	0
SERS	9,677,514	0	2,808,794	6,868,720	0
Subtotal Net OPEB Liability	21,718,598	0	5,688,756	16,029,842	0
Total Long-Term Obligationis	$123,641,846	$691,724	$30,460,335	$93,873,235	$264,000

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

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the fund benefitting from their service.

Note 7 - Capital Leases

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

The Center began making principal payments in fiscal year 2008. The principal amount owed on the lease at year end is $1,820,000.

The trustee entered into an Interest Rate Exchange Agreement with respect to the lease, locking in the rate at 4.59% plus an annual administrative fee. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2018.

Fiscal Year Ending June 30,	Long-Term Debt
2019	$145,830
2020	145,867
2021	145,762
2022	145,515
2023	146,102
2024-2028	728,269
2029-2033	724,975
2034-2037	575,100
Total Minimum Lease Payments	2,757,420
Less: Amount Representing Interest	(907,670)
Less: Additional Program Cost Component	(29,750)
Present Value of Minimum Lease Payments	$1,820,000

Note 8 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.20% for the first thirty years of service and 2.50% for years of service credit over 30 or $86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

Post-Retirement Increases – Before January 1, 2018; on each anniversary of the initial date of retirement, the allowances of all retirees and survivors are increased by 3% of the base benefit. On or after January 1, 2018; on each anniversary of the initial retirement, the allowance of all retirees and survivors are increased by the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0% nor greater than 2.5%. COLA's shall be suspended for calendar years 2018, 2019, and 2020.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the employer is required to contribute 14% 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% for plan members and 14% 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%. The remaining 0.5% was allocated to the Health Care Fund.

The contractually required contribution to SERS was $963,097 for fiscal year 2018. Of this amount $81,854 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

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

The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% 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 at 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% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% 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% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

New members who choose the DC Plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio therefore has included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

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 10 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, plan members were required to contribute 14% of their annual covered salary. The employer was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The contractually required contribution to STRS was $4,146,134 for fiscal year 2018. Of this amount $589,886 is reported as accrued wages and benefits.

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

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$16,060,139	$55,777,804	$71,837,943
Proportion of the Net Pension Liability:			
Current Measurement Date	0.34639030%	0.23480236%	
Prior Measurement Date	0.35531050%	0.22515006%	
Change in Proportionate Share	-0.00892020%	0.00965230%	
Pension Expense	($807,549)	($19,552,604)	($20,360,153)

At June 30, 2018, 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	$691,173	$2,153,877	$2,845,050
Changes of assumptions	830,482	12,199,219	13,029,701
Changes in employer proportionate share of net pension liability	806,059	4,759,106	5,565,165
Contributions subsequent to the measurement date	963,097	4,146,134	5,109,231
Total Deferred Outflows of Resources	$3,290,811	$23,258,336	$26,549,147
Differences between expected and actual experience	$0	$449,547	$449,547
Net difference between projected and actual earnings on pension plan investments	76,234	1,840,733	1,916,967
Changes in employer proportionate share of net pension liability	311,372	0	311,372
Total Deferred Inflows of Resources	$387,606	$2,290,280	$2,677,886

$5,109,231 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	$1,135,724	$4,312,329	$5,448,053
2020	1,023,000	6,838,752	7,861,752
2021	155,778	4,696,432	4,852,210
2022	(374,395)	974,410	600,015
Total	$1,940,107	$16,821,923	$18,762,030

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%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015

Prior to 2017, an assumption of 3.0% 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% of male rates, and 110% of female rates. Mortality among disable members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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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%. 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%. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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%, or one percentage point higher 8.50% than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	$22,287,299	$16,060,139	$10,843,622

Changes in Benefit Terms

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1 2013, or later, 2% 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% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% 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% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.45% as of June 30, 2017. 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 the rates 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% was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2017.

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

The following table represents the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.45% or one percentage point higher 8.45% than the current assumption:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	$79,955,584	$55,777,804	$35,411,648

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 9 – Defined Benefit Other Postemployment Benefits (OPEB) Plans

Net Other Postemployment Benefits (OPEB) Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term net OPEB liability on the accrual basis of accounting. Any liability for the contractually-required OPEB contribution outstanding at year-end is included in accrued liabilities on the accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The 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, 0.5% 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 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the surcharge obligation was $81,854.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contractually required contribution to SERS was $127,820 for fiscal year 2018. Of this amount $81,854 is reported as accrued wages and benefits.

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 Center's proportion of the net OPEB liability was based on the employer'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:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	$6,868,720	$9,161,122	$16,029,842
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.32981780%	0.23480236%	
Prior Measurement Date	0.33951784%	0.22515006%	
Change in Proportionate Share	-0.00970004%	0.00965230%	
OPEB Expense	($1,901,919)	($2,721,737)	($4,623,656)

At June 30, 2018, 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	$528,836	$528,836
Changes in employer proportionate share of net pension liability	0	442,464	442,464
Contributions subsequent to the measurement date	127,820	0	127,820
Total Deferred Outflows of Resources	$127,820	$971,300	$1,099,120
Changes of assumptions	$651,806	$737,957	$1,389,763
Net difference between projected and actual earnings on pension plan investments	18,138	391,568	409,706
Changes in employer proportionate share of net penson liability	157,492	0	157,492
Total Deferred Inflows of Resources	$827,436	$1,129,525	$1,956,961

$127,820 reported as deferred outflows of resources related to OPEB resulting from 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:

Fiscal Year Ending June 30:	SERS	STRS	Total
2019	($297,758)	($59,002)	($356,760)
2020	(297,758)	(59,002)	(356,760)
2021	(227,385)	(59,001)	(286,386)
2022	(4,535)	(59,001)	(63,536)
2023	0	38,890	38,890
Thereafter	0	38,891	38,891
Total	($827,436)	($158,225)	($985,661)

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:

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

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

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

Discount Rate

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

Sensitivity of the 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%
Proportionate share of the net OPEB liability	$8,294,854	$6,868,720	$5,738,858

	1% Decrease 6.50% decreasing to 4.00%	Current Trend Rate 7.50% decreasing to 5.00%	1% Increase 8.50% decreasing to 6.00%
Proportionate share of the net OPEB liability	$5,573,451	$6,868,720	$8,583,030

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

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%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% 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% to 4.13% 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% to 7.45%. 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% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019. Subsequent to the current measurement date, the date for discontinuing remaining Medicare Part B premium reimbursements was extended to January 2020.

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

Asset Class	Target Allocation	Long-Term Expected 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 includes the real rate of return and inflation of 2.25% and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate

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

Sensitivity of the 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%, 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%) or one percentage point higher (5.13%) 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%
Proportionate share of the net OPEB liability	$12,298,659	$9,161,122	$6,681,442

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	$6,364,755	$9,161,122	$12,841,468

Changes in Assumptions – STRS

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. 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% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Note 10 - Contingent Liabilities

Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2018.

Litigation

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

Note 11 - Risk Management

The Center is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center carries insurance coverage with the following companies.

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

Limits and deductible amounts for the above policies vary accordingly.

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

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

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

Note 12 - State Funding

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

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

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

Note 13 – Accountability

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

Fund	Deficit
Title I Disadvantaged Children	$10,467
Data Communication	289
Refugee School Impact Grant	7,646

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

Note 14 - Interfund Transactions

Interfund transactions at June 30, 2018, consisted of the following interfund receivables and interfund payables and transfers in and transfers out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	$1,385,083	$0	$0	$1,000,000
Head Start Fund	0	1,010,548	0	0
Capital Projects	0	0	1,000,000	0
Other Governmental Funds	0	374,535	0	0
Total All Funds	$1,385,083	$1,385,083	$1,000,000	$1,000,000

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

Note 15 - Jointly Governed Organization

Hamilton Clermont Cooperative Information Technology Center

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

Unified Purchasing Cooperative

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

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

Center for Collaborative Solutions, A Regional Council of Governments

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

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

SWOOSH Consortium

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

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

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

Note 16 - Claims Servicing Pool

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

Note 17 –Fund Balances

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

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Fund Balances	General	Head Start	Capital Project	Other Governmental Funds	Total
Nonspendable:					
Prepaids	$91,937	$11,669	$0	$4,419	$108,025
Inventory	7,101	0	0	0	7,101
Total Nonspendable	99,038	11,669	0	4,419	115,126
Restricted for:					
Head Start Program	0	447,798	0	0	447,798
Other Grants	0	0	0	762,948	762,948
Miscellaneous State Grants	0	0	0	52,086	52,086
Miscellaneous Federal Grants	0	0	0	134,535	134,535
Title VI-B Special Education	0	0	0	22,681	22,681
Idea Preschool Grant	0	0	0	662	662
Total Restricted	0	447,798	0	972,912	1,420,710
Committed to:					
Loan Receivable	100,000	0	0	0	100,000
Total Committed	100,000	0	0	0	100,000
Assigned to:					
Permanent Improvements	0	0	0	387,561	387,561
Capital Projects	0	0	8,283,750	0	8,283,750
Encumbrances	418,448	0	0	0	418,448
Total Assigned	418,448	0	8,283,750	387,561	9,089,759
Unassigned (Deficit)	14,921,583	0	0	(18,587)	14,902,996
Total Fund Balance	$15,539,069	$459,467	$8,283,750	$1,346,305	$25,628,591

Note 18 – Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the Center has implemented GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pensions Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, and GASB No. 86, Certain Debt Extinguishment Issues, and GASB Statement No. 85, Omnibus 2017, GASB 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).

GASB Statement No. 81 sets out to improve accounting and financial reporting for irrevocable split interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Center.

GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. The implementation of GASB Statement No. 82 was included in the footnote disclosures for 2018.

GASB Statement No. 86 sets out to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. One of the criteria for determining an in-substance defeasance is that the trust hold only monetary assets that are essentially risk-free. If the substitution of essentially risk-free monetary assets with monetary assets that are not essentially risk-free is not prohibited, governments should disclose that fact in the period in which the debt is defeased in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Center.

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 Center’s fiscal year 2018 financial statements; however, there was no effect on beginning net position/fund balance.

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 had the following effect on net position as reported June 30, 2017:

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Net position June 30, 2017	($50,436,927)
Adjustments:	
Net OPEB Liabililty	(21,718,598)
Deferred Outflow - Payments Subsequent to Measurement Date	79,439
Restated Net Position June 30, 2017	($72,076,086)

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

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Required Supplementary Information

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

	2018	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.23480236%	0.22515006%	0.22475533%	0.20353901%	0.20353901%
Center's Proportionate Share of the Net Pension Liability	$55,777,804	$75,364,512	$62,115,799	$49,507,731	$58,814,466
Center's Covered-Employee Payroll	$27,319,557	$24,876,314	$24,771,250	$22,395,762	$38,195,800
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	204.17%	302.96%	250.76%	221.06%	153.98%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) - The schedule is intended to show information for the past 5 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.34639030%	0.35531050%	0.34155250%	0.29964300%	0.29964300%
Center's Proportionate Share of the Net Pension Liability	$16,060,139	$20,843,368	$15,532,986	$12,080,856	$14,199,431
Center's Covered-Employee Payroll	$7,460,564	$8,794,593	$9,393,361	$8,794,986	$14,529,747
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	215.27%	237.00%	165.36%	137.36%	97.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) - The schedule is intended to show information for the past 5 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$4,146,134	$3,824,738	$3,482,684	$3,467,975	$2,911,449	$4,965,454	$4,631,272	$4,786,028	$4,634,525	$4,682,235
Contributions in Relation to the Contractually Required Contribution	(4,146,134)	(3,824,738)	(3,482,684)	(3,467,975)	(2,911,449)	(4,965,454)	(4,631,272)	(4,786,028)	(4,634,525)	(4,682,235)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Center Covered-Employee Payroll	$29,615,243	$27,319,557	$24,876,314	$24,771,250	$22,395,762	$38,195,800	$35,625,169	$36,815,600	$35,650,192	$36,017,192
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	$963,097	$1,044,479	$1,231,243	$1,238,045	$1,218,985	$2,010,917	$1,908,012	$1,977,120	$2,109,654	$2,284,733
Contributions in Relation to the Contractually Required Contribution	(963,097)	(1,044,479)	(1,231,243)	(1,238,045)	(1,218,985)	(2,010,917)	(1,908,012)	(1,977,120)	(2,109,654)	(2,284,733)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Center Covered-Employee Payroll	$7,134,052	$7,460,564	$8,794,593	$9,393,361	$8,794,986	$14,529,747	$14,185,963	$15,728,878	$15,580,901	$23,218,831
Contributions as a Percentage of Covered-Employee Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

See accompanying notes to the required supplementary information.

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

	2018	2017
Center's Proportion of the Net OPEB Liability	0.23480236%	0.22515006%
Center's Proportionate Share of the Net OPEB Liability	$9,161,122	$12,041,084
Center's Covered-Employee Payroll	$27,319,557	$24,876,314
Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	33.53%	48.40%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) - The schedule is intended to show information for the past 2 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017
Center's Proportion of the Net OPEB Liability	0.32981780%	0.33951784%
Center's Proportionate Share of the Net OPEB Liability	$6,868,720	$9,677,514
Center's Covered-Employee Payroll	$7,460,564	$8,794,593
Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	92.07%	110.04%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) - The schedule is intended to show information for the past 2 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
Required Supplementary Information
Schedule of Center Contributions to
Postemployment Benefits Other Than Pension (OPEB)
State Teachers Retirement System of Ohio
Last Three Fiscal Years (1)

	2018	2017	2016
Contractually Required Contribution to OPEB	$0	$0	$0
Contributions to OPEB in Relation to the Contractually Required Contribution	0	0	0
Contribution Deficiency (Excess)	$0	$0	$0
Center Covered-Employee Payroll	$29,615,243	$27,319,557	$24,876,314
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
Required Supplementary Information
Schedule of Center Contributions to
Postemployment Benefits Other Than Pension (OPEB)
School Employees Retirement System of Ohio
Last Three Fiscal Years (1)

	2018	2017	2016
Contractually Required Contribution to OPEB (2)	$127,820	$79,439	$83,622
Contributions to OPEB in Relation to the Contractually Required Contribution	(127,820)	(79,439)	(83,622)
Contribution Deficiency (Excess)	$0	$0	$0
Center Covered-Employee Payroll	$7,134,052	$7,460,564	$8,794,593
Contributions to OPEB as a Percentage of Covered-Employee Payroll	1.79%	1.06%	0.95%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

(2) - Includes Surcharge.

See accompanying notes to the required supplementary information.

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2018

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	$738,580	$724,952	$724,952	$0
Investment Earnings	232,678	228,385	228,385	0
Intergovernmental	3,022,324	2,966,559	2,966,559	0
Charges for Services	42,066,979	41,290,795	41,290,795	0
Other Revenues	131,724	129,294	129,294	0
Total Revenues	46,192,285	45,339,985	45,339,985	0
Expenditures:				
Current:				
Instruction:				
Special	7,300,386	7,214,272	7,214,272	0
Vocational	18,993	18,769	18,769	0
Support Services:				
Pupil	11,621,553	11,484,467	11,484,467	0
Instructional Staff	9,217,046	9,108,323	9,108,323	0
General Administration	52,870	52,246	52,246	0
School Administration	4,731,165	4,675,357	4,675,357	0
Fiscal	879,287	868,915	868,915	0
Business	796,102	786,711	786,711	0
Operations and Maintenance	379,112	374,640	374,640	0
Central	1,167,216	1,153,448	1,153,448	0
Operation of Non-Instructional Services	7,330,510	7,244,040	7,244,040	0
Capital Outlay	874,036	863,726	863,726	0
Total Expenditures	44,368,276	43,844,914	43,844,914	0
Excess of Revenues Over (Under) Expenditures	1,824,009	1,495,071	1,495,071	0
Other Financing Sources (Uses):				
Advances In	1,716,016	1,684,354	1,684,354	0
Advances (Out)	(1,401,617)	(1,385,084)	(1,385,084)	0
Transfers (Out)	(1,011,937)	(1,000,000)	(1,000,000)	0
Total Other Financing Sources (Uses)	(697,538)	(700,730)	(700,730)	0
Net Change in Fund Balance	1,126,471	794,341	794,341	0
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	15,946,370	15,946,370	15,946,370	0
Fund Balance End of Year	$17,072,841	$16,740,711	$16,740,711	$0

See accompanying notes to the supplementary information.

Hamilton County Educational Service Center
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2018

	Head Start Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	$8,204,177	$8,211,572	$8,211,572	$0
Total Revenues	8,204,177	8,211,572	8,211,572	0
Expenditures:				
Current:				
Support Services:				
School Administration	77,729	295,882	324,015	(28,133)
Fiscal	105,373	401,110	439,249	(38,139)
Operation of Non-Instructional Services	1,968,321	7,492,579	8,205,000	(712,421)
Total Expenditures	2,151,423	8,189,571	8,968,264	(778,693)
Excess of Revenues Over (Under) Expenditures	6,052,754	22,001	(756,692)	(778,693)
Other Financing Sources (Uses):				
Advances In	1,009,638	1,010,548	1,010,548	0
Advances (Out)	(204,564)	(778,689)	(852,730)	(74,041)
Total Other Financing Sources (Uses)	805,074	231,859	157,818	(74,041)
Net Change in Fund Balance	6,857,828	253,860	(598,874)	(852,734)
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	598,870	598,870	598,870	0
Fund Balance End of Year	$7,456,698	$852,730	($4)	($852,734)

See accompanying notes to the supplementary information.

Note 1 – Budgetary Process

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

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Center's Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2018.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).

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

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

Net Change in Fund Balance

	General	Head Start
GAAP Basis	$1,900,407	$216,244
Revenue Accruals	(1,188,600)	(271,931)
Expenditure Accruals	361,574	37,776
Advances In	1,684,354	1,010,548
Advances Out	(1,385,084)	(852,730)
Encumbrances	(578,310)	(738,781)
Budget Basis	$794,341	($598,874)

Note 2 - SERS Change in Assumptions-Net Pension Liability

The COLA was changed from a fixed 3.00% to a COLA that is indexed to CPI-W not greater than 2.5% with a floor of 0% beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Note 3 - STRS Change in Assumptions and Benefit Terms-Net Pension Liability

Changes in Assumptions

The Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms

Effective July 1, 2017, the COLA was reduced to zero.

Note 4 - SERS Change in Assumptions-Net OPEB Liability

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

Note 5 - STRS Change in Assumptions-Net OPEB Liability

For fiscal year 2018, the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)* and the long term expected rate of return was reduced from 7.75% to 7.45%. 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% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

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HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON 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 and Adult Care Food Program	10.558	N/A	$ 350,096
Total U.S. Department of Agriculture			**350,096**
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education			
Title I Grants to Local Educational Agencies	84.010	S010A170035	170,229
English Language Acquisition Grants	84.365	S365A170035 & S365A180035	52,810
Special Education Cluster			
Special Education - Grants to the States	84.027	H027A150111 & H027A170111	2,502,380
Special Education - Preschool Grants	84.173	H173A170119	150,464
Total Special Education Cluster			2,652,844
School Climate Transformation	84.184	S184F140016	40,647
Total U.S. Department of Education			**2,916,530**
U.S. DEPARTMENT OF Health & Human Services			
Direct Program			
Head Start	93.600	05CH847104 & 05CH847105	7,879,383
Passed Through Ohio Department of Job & Family Services			
Refugee and Entrant Assistance - State/Replacement Designee Administered Programs	93.566	17010HRSOC	22,000
Early Learning Initiative	93.558	C89060098	62,239
Total U.S. Department of Health & Human Services			**7,963,622**
Total Expenditures of Federal Awards			**$11,230,248**

The accompanying notes are an integral part of this schedule.

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON COUNTY

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

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Hamilton County Educational Service Center, Hamilton County, Ohio (the 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 Center, it is not intended to and does not present the financial position or changes in net position of the Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C - MATCHING REQUIREMENTS

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

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

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

To the Governing Body:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States *Government Auditing Standards,* the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center, Hamilton County, Ohio (the Center), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 22, 2019, wherein we noted that the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

March 22, 2019

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

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

To the Governing Body:

Report on Compliance for Each Major Federal Program

We have audited the Hamilton County Educational Service Center 's, Hamilton County, Ohio (the Center), compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect each of the Center's major federal programs for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Center's major federal programs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or a 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 a 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 result of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

March 22, 2019

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER
HAMILTON 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):**	CFDA 93.600 Head Start & CFDA 84.027 & 84.173 Special Education Cluster
(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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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30, 2018

Finding Number	**Finding Summary**	**Status**	**Additional Information**
2017-001	Failure to properly report financial activity	Corrected	

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

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

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

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OHIO AUDITOR OF STATE
KEITH FABER

HAMILTON COUNTY EDUCATIONAL SERVICE CENTER

HAMILTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 28, 2019

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