JEFFERSON COUNTY
EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

AUDIT REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2017

James G. Zupka, CPA, Inc.
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER

January 17, 2019

The attached audit report was completed and prepared for release prior to the commencement of my term of office on January 14, 2019. Reports completed prior to that date contain the signature of my predecessor.

Ohio Auditor of State

Keith Faber

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

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Dave Yost · Auditor of State

Members of the Governing Board
Jefferson County Educational Service Center
2023 Sunset Blvd
Steubenville, Ohio 43952

We have reviewed the *Independent Auditor's Report* of the Jefferson County Educational Service Center, Jefferson County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Jefferson County Educational Service Center is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

January 4, 2019

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JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the Governing Board
Jefferson County Educational Service Center
Steubenville, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedules of Net Pension Liabilities and Pension Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The Schedules of Revenue, Expenditures, and Changes in Fund Balance - Budget (Budgetary Basis) and Actual and the related notes present additional analysis and are not a required part of the basic financial statements.

We did not subject the Schedules of Revenue, Expenditures, and Changes in Fund Balance - Budget (Budgetary Basis) and Actual to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2018, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 7, 2018

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JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(UNAUDITED)

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

Financial Highlights

Key financial highlights for fiscal year 2017 are as follows:

- In total, net position of governmental activities decreased $1,046,662 which represents a 38.58% decrease from 2016.

- General revenues accounted for $424,190 in revenue or 7.85% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $4,976,849 or 92.15% of total revenues of $5,401,039.

- The ESC had $6,447,701 in expenses related to governmental activities; $4,976,849 of these expenses were offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (unrestricted grants and entitlements) of $424,190 were not adequate to provide for these programs.

- The ESC's major governmental funds are the general fund and the capital projects fund. The general fund had $5,314,500 in revenues and $6,008,754 in expenditures. During fiscal year 2017, the general fund's fund balance decreased $694,254 from $1,731,801 to $1,037,547.

- The capital projects fund had no revenues or expenditures. During fiscal year 2017, the capital projects fund balance remained at zero.

Using the Basic Financial Statements (BFS)

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

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

Reporting the ESC as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The statement of net position and statement of activities answer this question. These statements include all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

The ESC's statement of net position and statement of activities can be found on pages 17-18 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental funds begins on page 13. Fund financial reports provide detailed information about the ESC's major funds. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant funds. The ESC's major governmental fund are the general fund and the capital projects fund.

Governmental Funds

Most of the ESC's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the statement of net position and statement of activities) and governmental funds is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 19-22 of this report.

Proprietary Funds

The ESC maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the ESC's various functions. The ESC's internal service fund accounts for medical/surgical, vision and dental self-insurance. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

Reporting the ESC's Fiduciary Responsibilities

The activity presented as agency funds account for monies due to other governments, individuals or private organizations. The ESC is also the trustee, or fiduciary, for its scholarship programs. This activity is presented as a private-purpose trust fund. All of the ESC's fiduciary activities are reported in separate statements of fiduciary net position and changes in fiduciary net position on pages 26 and 27. These activities are excluded from the ESC's other financial statements because the assets cannot be utilized by the ESC to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 29-58 of this report.

Supplementary Information

The ESC has presented a budgetary comparison schedule for the general fund as supplementary information on pages 60-62 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the ESC's net pension liability. The required supplementary information can be found on pages 64-70 of this report.

The ESC as a Whole

Recall that the statement of net position provides the perspective of the ESC as a whole.

The table below provides a summary of the ESC's net position for fiscal years 2017 and 2016.

Net Position

	Governmental Activities 2017	Governmental Activities 2016
Assets		
Current and other assets	$ 3,809,695	$ 3,541,922
Capital assets, net	674,764	581,109
Total assets	4,484,459	4,123,031
Deferred outflows of resources		
Pension	2,864,368	1,160,336
Liabilities		
Current liabilities	1,137,104	473,416
Long-term liabilities:		
Due within one year	221,815	218,186
Due in more than one year:		
Net pension liability	9,273,235	6,839,406
Other amounts	138,775	126,234
Total liabilities	10,770,929	7,657,242
Deferred inflows of resources		
Pension	337,657	339,222
Net Position		
Net Investment in capital assets	667,126	570,342
Restricted	11,894	10,803
Unrestricted (deficit)	(4,438,779)	(3,294,242)
Total net position (deficit)	$ (3,759,759)	$ (2,713,097)

Net Pension Liability

The ESC has adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement 27," which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ESC's actual financial condition by adding deferred inflows of resources related to pension and the net pension liability to the reported net position and subtracting deferred outflows of resources related to pension.

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

Under the standards required by GASB 68, the net pension liability equals the ESC's proportionate share of each plan's collective:

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

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

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

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

Analysis of Net Position

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the ESC's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $3,759,759, of this total; $11,894 is restricted in use.

Current and other assets increased primarily in the areas of cash with fiscal agent related to the ESC's self-insurance program and accounts receivable for services performed in fiscal year 2017 which payment was not received by fiscal year-end. Long-term liabilities increased as a result of an increase in the net pension liability discussed above. In relation to its effect on net position, the impact of the increase in the net pension liability is partially offset by an increase in deferred outflows of resources related to pension and a decrease in deferred inflows of resources related to pension. These factors are outside of the control of the ESC. The ESC contributes its statutorily required contributions to the pension systems; however, it's the pension systems that collect, hold and distribute pensions to ESC employees, not the ESC.

At year-end, capital assets represented 15.05% of total assets. Capital assets include land, buildings, furniture and equipment and vehicles. Net investment in capital assets at June 30, 2017 was $667,126. These capital assets are used to provide the ESC's services and are not available for future spending. Although the ESC'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.

$11,894 of the ESC's net position is subject to external restriction on how it may be used. The remaining balance of unrestricted net position is a deficit of $4,438,779. The deficit balance of unrestricted net position was the result of reporting the net pension liability required by GASB 68.

The table below shows the change in net position for fiscal years 2017 and 2016.

Change in Net Position

	Governmental Activities 2017	Governmental Activities 2016
Revenues		
Program revenues:		
Charges for services and sales	$ 4,899,230	$ 5,306,449
Operating grants and contributions	77,619	122,323
General revenues:		
Grants and entitlements	409,235	260,372
Investment earnings	12,995	9,192
Miscellaneous	1,960	4,295
Total revenues	5,401,039	5,702,631

Change in Net Position

	Governmental Activities 2017	Governmental Activities 2016
Expenses		
Program expenses:		
Instruction:		
Regular	$ 253,064	$ 110,385
Special	525,118	566,216
Other	10,500	8,400
Support services:		
Pupil	1,153,072	1,020,996
Instructional staff	1,800,098	1,928,972
Board of education	15,966	17,379
Administration	2,017,139	1,740,976
Fiscal	330,247	339,925
Operations and maintenance	249,328	44,515
Central	950	980
Operation of non-instructional services:		
Other non-instructional services	91,752	6,337
Interest and fiscal charges	467	620
Total expenses	6,447,701	5,785,701
Change in net position	(1,046,662)	(83,070)
Net position (deficit) at beginning of year	(2,713,097)	(2,630,027)
Net position (deficit) at end of year	$ (3,759,759)	$ (2,713,097)

Governmental Activities

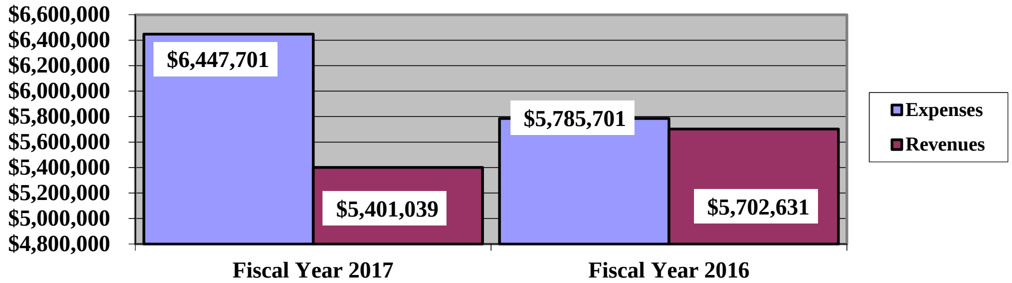
Net position of the ESC's governmental activities decreased $1,046,662. Total governmental expenses of $6,447,701 were offset by program revenues of $4,976,849 and general revenues of $424,190. Program revenues supported 77.19% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from contracted fees for services provided to other entities. This revenue source represents 90.71% of total governmental revenue.

Overall, expenses increased $662,000 or 11.44% from the prior year. Pension expense was the primary reason for the increase in expenses. Pension expense for fiscal year 2017 was $1,214,395 compared to $513,174 for fiscal year 2016. Pension expense is reported as a program expense of the program benefitting from the employee's service.

The graph below presents the ESC's governmental activities revenue and expenses for fiscal years 2017 and 2016.

Governmental Activities - Revenues and Expenses



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

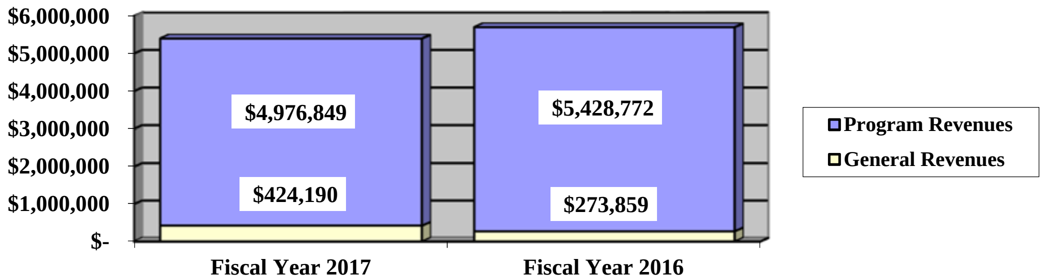
Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Program expenses				
Instruction:				
Regular	$ 253,064	$ (311,385)	$ 110,385	$ (830)
Special	525,118	(927,491)	566,216	6,756
Other	10,500	4,356	8,400	1,030
Support services:				
Pupil	1,153,072	518,792	1,020,996	87,500
Instructional staff	1,800,098	850,510	1,928,972	257,048
Board of education	15,966	6,890	17,379	1,862
Administration	2,017,139	864,749	1,740,976	(64,985)
Fiscal	330,247	169,471	339,925	61,265
Operations and maintenance	249,328	223,086	44,515	6,146
Central	950	(850)	980	(820)
Operations of non-instructional services	91,752	72,257	6,337	1,337
Interest and fiscal charges	467	467	620	620
Total	$ 6,447,701	$ 1,470,852	$ 5,785,701	$ 356,929

For all governmental activities, program revenue support is 77.19%. The primary support of the ESC is contracted fees for services provided to other districts.

The graph below presents the ESC's governmental activities revenue for fiscal years 2017 and 2016.

Governmental Activities - General and Program Revenues



The ESC's Funds

The ESC's governmental funds (as presented on the balance sheet on page 21) reported a combined fund balance of $1,049,441, which is less than last year's total of $1,742,604. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2017 and 2016.

	Fund Balance June 30, 2017	Fund Balance June 30, 2016	Change
General	$ 1,037,547	$ 1,731,801	$ (694,254)
Other governmental	11,894	10,803	1,091
Total	$ 1,049,441	$ 1,742,604	$ (693,163)

General Fund

The ESC's general fund balance decreased $694,254. The table on the following page assists in illustrating the financial activities and fund balance of the general fund.

	2017 Amount	2016 Amount	Percentage Change
Revenues			
Services provided to other entities	$ 3,360,815	$ 3,836,490	(12.40) %
Tuition	1,526,593	1,469,959	3.85 %
Earnings on investments	6,159	6,549	(5.96) %
Intergovernmental	407,998	280,022	45.70 %
Other revenues	12,935	4,295	201.16 %
Total	$ 5,314,500	$ 5,597,315	(5.05) %
Expenditures			
Instruction	$ 752,516	$ 694,807	8.31 %
Support services	4,982,317	5,353,358	(6.93) %
Operation of non-instructional services	29,056	1,060	2,641.13 %
Facilities acquisition and construction	241,269	-	- %
Debt service	3,596	3,597	(0.03) %
Total	$ 6,008,754	$ 6,052,822	(0.73) %

During fiscal year 2017, the ESC reported less revenue for services performed for other entities that it did in the prior year. The fiscal year 2017 revenue is comparable to fiscal year 2016. The revenue for services performed to other entities for the fiscal years ended June 30, 2017, 2016 and 2015 was $3,360,815, $3,836,490 and $3,099,629, respectively. Intergovernmental revenue increased primarily due to an increase in foundation provided by the State of Ohio. Other revenues increased primarily due to the receiving donations to put on a spelling bee. Instruction expenditures increased mainly in regular instruction. Support services decreased primarily in instructional staff. Facilities acquisition and construction expenditures increased due to building renovations being performed at the ESC's facility.

Capital projects fund

The capital projects fund had no revenues or expenditures in fiscal year 2017. The fund balance remained zero during fiscal year 2017. During fiscal year 2017, the capital projects fund received a $750,000 contribution; however, the project funded by the contribution was subsequently abandoned and the contribution is to be returned to the contributor. The $750,000 cash balance in the capital projects fund is equally offset by an intergovernmental payable for the return of the contribution.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017, the ESC had $674,764 invested in land, buildings, furniture and equipment, and vehicles. This entire amount is reported in governmental activities. The following table shows June 30, 2017 balances compared to June 30, 2016:

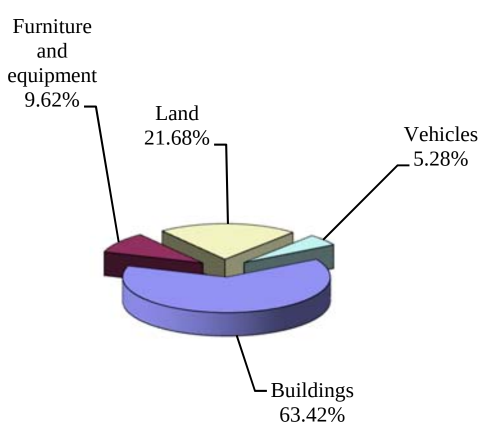
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2017	2016
Land	$ 146,284	$ 102,679
Buildings	427,941	359,222
Furniture and equipment	64,905	98,574
Vehicles	35,634	20,634
Total	$ 674,764	$ 581,109

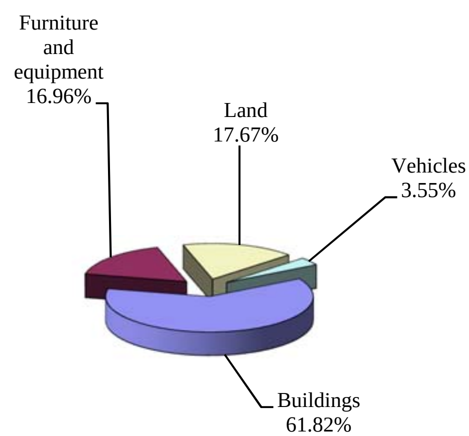
In total capital assets increased $93,655 for fiscal year 2017. A total of $152,450 in total additions was greater than total depreciation expense of $58,795 in fiscal year 2017.

The graphs below present the ESC's capital assets at June 30, 2017 and June 30, 2016.

Capital Assets - Governmental Activities
2017



Capital Assets - Governmental Activities
2016



See Note 6 to the basic financial statements for additional information on the ESC's capital assets.

Debt Administration

At June 30, 2017 the ESC had $7,638 in capital lease obligations outstanding. The following table summarizes the capital lease obligations outstanding.

Outstanding Capital Lease Debt, at Year End

	Governmental Activities 2017	Governmental Activities 2016
Capital lease obligation	$ 7,638	$ 10,767
Total	$ 7,638	$ 10,767

See Note 8 to the basic financial statements for detail on the ESC's debt administration.

Current Financial Related Activities

The ESC is financially solvent. As the preceding information shows, the ESC relies heavily on contracts with local, city, and JVS school districts in Jefferson, Harrison and Columbiana Counties, as well as State foundation revenue, and grants. The need for additional services from local and city school districts, which is paid for by excess costs, State funding and grants will provide the ESC with necessary funds to meet operating expenses in fiscal year 2017. However, the future financial stability of the ESC is not without concerns.

Declining enrollment in Jefferson County remains a concern of the ESC. State funding for the ESC and the districts is based on average daily membership of participating school districts. Continued decline in enrollment will have a direct impact on state revenues received by school districts and the amount of services they will need from the ESC. As district revenues decline, they rely on the ESC for services and personnel they cannot employ at the district level. With little to no increases from the State, the ESC is forced to try to do more with limited resources.

Each year, school districts need additional services. Therefore, the ESC is constantly collecting data, monitoring program activity, and stepping forward to provide new services while still maintaining a financially solvent operation. The Virtual Learning Academy has added a new dimension for generating revenues, not only throughout the state of Ohio, but also throughout all fifty states and twenty-three countries overseas. In addition, the health benefits program continues to grow. The program currently insures over 21,000 employees and has contracts with three hundred fourteen entities in seventy-nine counties across the State.

ESC systems of internal control and procedures are reviewed throughout the year to insure a cost-efficient operation.

Contacting the ESC's Financial Management

This financial report is designed to provide the citizens supported by the districts, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Don Donahue, Treasurer, Jefferson County ESC, 2023 Sunset Boulevard, Steubenville, Ohio 43952.

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2017

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	$ 2,047,609
Cash with fiscal agent	1,576,493
Receivables:	
Accounts.	102,999
Accrued interest	1,534
Intergovernmental	45,050
Prepayments	35,530
Materials and supplies inventory.	480
Capital assets:	
Nondepreciable capital assets	146,284
Depreciable capital assets, net.	528,480
Capital assets, net	674,764
Total assets.	4,484,459
Deferred outflows of resources:	
Pension - STRS	827,471
Pension - SERS	2,036,897
Total deferred outflows of resources	2,864,368
Liabilities:	
Accounts payable.	49,469
Accrued wages and benefits payable	222,126
Intergovernmental payable	755,378
Pension and postemployment benefits	58,845
Claims payable.	51,286
Long-term liabilities:	
Due within one year.	221,815
Due in more than one year:	
Net pension liability (See Note 10)	9,273,235
Other amounts	138,775
Total liabilities	10,770,929
Deferred inflows of resources:	
Pension - STRS.	337,657
Net position:	
Net investment in capital assets	667,126
Restricted for:	
State funded programs.	4,751
Other purposes	7,143
Unrestricted (deficit)	(4,438,779)
Total net position (deficit).	$ (3,759,759)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Instruction:				
Regular	$ 253,064	$ 519,136	$ 45,313	$ 311,385
Special	525,118	1,441,634	10,975	927,491
Other	10,500	6,144	-	(4,356)
Support services:				
Pupil.	1,153,072	634,280	-	(518,792)
Instructional staff	1,800,098	946,805	2,783	(850,510)
Board of education	15,966	9,076	-	(6,890)
Administration.	2,017,139	1,138,135	14,255	(864,749)
Fiscal.	330,247	160,776	-	(169,471)
Operations and maintenance	249,328	26,242	-	(223,086)
Central	950	-	1,800	850
Operation of non-instructional services:				
Other non-instructional services	91,752	17,002	2,493	(72,257)
Interest and fiscal charges	467	-	-	(467)
Total governmental activities	$ 6,447,701	$ 4,899,230	$ 77,619	(1,470,852)

General revenues:	
Grants and entitlements not restricted to specific programs	409,235
Investment earnings	12,995
Miscellaneous	1,960
Total general revenues	424,190
Change in net position	(1,046,662)
Net position (deficit) at beginning of year	(2,713,097)
Net position (deficit) at end of year	$ (3,759,759)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Equity in pooled cash and cash equivalents	$ 1,286,828	$ 750,000	$ 10,781	$ 2,047,609
Receivables:				
Accounts	19,649	-	-	19,649
Interfund loans	2,438	-	-	2,438
Intergovernmental	36,082	-	8,968	45,050
Prepayments	35,530	-	-	35,530
Materials and supplies inventory	480	-	-	480
Total assets	$ 1,381,007	$ 750,000	$ 19,749	$ 2,150,756
Liabilities:				
Accounts payable	$ 47,285	$ -	$ 2,184	$ 49,469
Accrued wages and benefits payable	219,326	-	2,800	222,126
Intergovernmental payable	5,337	750,000	41	755,378
Pension and postemployment benefits	58,453	-	392	58,845
Interfund loans payable	-	-	2,438	2,438
Total liabilities	330,401	750,000	7,855	1,088,256
Deferred inflows of resources:				
Intergovernmental revenue not available	1,237	-	-	1,237
Miscellaneous revenue not available	11,822	-	-	11,822
Total deferred inflows of resources	13,059	-	-	13,059
Fund balances:				
Nonspendable:				
Materials and supplies inventory	480	-	-	480
Prepaids	35,530	-	-	35,530
Restricted:				
Special education	-	-	7,143	7,143
Other purposes	-	-	4,751	4,751
Assigned:				
Student and staff support	11,448	-	-	11,448
Other purposes	293	-	-	293
Unassigned	989,796	-	-	989,796
Total fund balances	1,037,547	-	11,894	1,049,441
Total liabilities, deferred inflows and fund balances	$ 1,381,007	$ 750,000	$ 19,749	$ 2,150,756

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

Total governmental fund balances		$	1,049,441
Amounts reported for governmental activities on the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			674,764
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred inflows in the funds.			
Accounts receivable	11,822		
Intergovernmental receivable	1,237		
Total			13,059
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net position.			1,610,091
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds.			
Deferred outflows of resources - pension	2,864,368		
Deferred inflows of resources - pension	(337,657)		
Net pension liability	(9,273,235)		
Total			(6,746,524)
Long-term liabilities, are not due and payable in the current period and therefore are not reported in the funds.			
Capital lease obligations	(7,638)		
Compensated absences	(352,952)		
Total			(360,590)
Net position (deficit) of governmental activities		$	(3,759,759)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Services provided to other entities	$ 3,360,815	$ -	$ 3,360,815
Tuition	1,526,593	-	1,526,593
Earnings on investments	6,159	-	6,159
Contributions and donations	10,975	-	10,975
Other local revenues	1,960	-	1,960
Intergovernmental - state	407,998	66,644	474,642
Total revenues	5,314,500	66,644	5,381,144
Expenditures:			
Current:			
Instruction:			
Regular	173,811	45,313	219,124
Special	568,205	-	568,205
Other	10,500	-	10,500
Support services:			
Pupil	1,083,994	-	1,083,994
Instructional staff	1,618,105	2,438	1,620,543
Board of education	15,511	-	15,511
Administration	1,945,090	13,796	1,958,886
Fiscal	274,769	-	274,769
Operations and maintenance	44,848	-	44,848
Central	-	924	924
Operation of non-instructional services:			
Other non-instructional services	29,056	3,082	32,138
Facilities acquisition and construction	241,269	-	241,269
Debt service:			
Principal retirement	3,129	-	3,129
Interest and fiscal charges	467	-	467
Total expenditures	6,008,754	65,553	6,074,307
Net change in fund balances	(694,254)	1,091	(693,163)
Fund balances at beginning of year	1,731,801	10,803	1,742,604
Fund balances at end of year	$ 1,037,547	$ 11,894	$ 1,049,441

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds		$ (693,163)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	$ 152,450	
Current year depreciation	(58,795)	
Total		93,655
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Accounts receivable	11,822	
Intergovernmental	1,237	
Total		13,059
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net position.		3,129
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		486,163
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(1,214,395)
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(19,299)
An internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		284,189
Change in net position of governmental activities		$ (1,046,662)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent.	$ 1,576,493
Receivables:	
Accounts	83,350
Accrued interest.	1,534
Total assets.	1,661,377
Liabilities:	
Claims payable.	51,286
Net position:	
Unrestricted.	1,610,091
Total net position.	$ 1,610,091

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services	$ 944,339
Operating expenses:	
Claims	666,986
Operating income	277,353
Nonoperating revenues:	
Interest revenue	6,836
Change in net position	284,189
Net position at beginning of year.	1,325,902
Net position at end of year	$ 1,610,091

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services.	$ 860,989
Cash payments for claims	(693,422)
Net cash provided by operating activities	167,567
Cash flows from investing activities:	
Interest received	5,302
Net cash provided by investing activities	5,302
Net increase in cash with fiscal agent	172,869
Cash with fiscal agent at beginning of year	1,403,624
Cash with fiscal agent at end of year	$ 1,576,493
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 277,353
Changes in assets and liabilities:	
(Increase) in accounts receivable.	(83,350)
(Decrease) in claims payable	(26,436)
Net cash provided by operating activities	$ 167,567

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Private-Purpose Trust	
	Scholarship	**Agency**
Assets:		
Equity in pooled cash and cash equivalents	$ 12,587	$ 79,055
Cash and investments in segregated accounts	-	129,441,435
Receivables:		
Accrued interest	6	257,292
Intergovernmental	-	99,077
Total assets	12,593	$ 129,876,859
Liabilities:		
Accounts payable	-	$ 2,258
Intergovernmental payable	-	129,874,601
Total liabilities	-	$ 129,876,859
Net position:		
Held in trust for scholarships	12,593	
Total net position	$ 12,593	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Private-Purpose Trust
	Scholarship
Additions:	
Interest.	$ 1
Change in net position	1
Net position at beginning of year.	12,592
Net position at end of year	$ 12,593

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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NOTE 1 - DESCRIPTION OF THE ESC

The Jefferson County Educational Service Center (the "ESC") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The ESC is defined by Section 3311.05 of the Ohio Revised Code. The ESC operates under an elected Governing Board (five members). The following services are provided to the local school districts and city school districts under contract in Jefferson, Harrison and Columbiana counties:

Vocational Educational Services
General Instructional Services
Speech, Hearing and Language Services
Special Projects Coordination
Talented and Gifted Program
Special Educational Services
Psychological Services
Administrative Services
Developmental Handicapped and Disability Classroom Supervision

Average daily membership as of June 30, 2017 was 11,282. The Governing Board employed 25 certified employees and 47 non-certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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

JOINTLY GOVERNED ORGANIZATIONS

<u>Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)</u>
Ohio Mid-Eastern Regional Educational Service Agency (OME-RESA) is a jointly governed organization created as a regional council of governments pursuant to State statutes. OME-RESA provides financial accounting services, an education management information system, cooperative purchase services and legal services to member districts. OME-RESA has eleven participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Jefferson, Muskingum, Monroe, Noble, and Tuscarawas counties. OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts. The Jefferson County Educational Service Center office serves as the fiscal agent and receives funding from the State Department of Education. The continued existence of OMERESA is not dependent on the ESC's continued participation and no equity interest exists. OMERESA has no outstanding debt. During fiscal year 2017, the ESC paid $23,531 to OME-RESA for various services. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, 2230 Sunset Boulevard Suite 2, Steubenville, Ohio 43952.

PUBLIC ENTITY RISK POOLS

<u>Jefferson Health Plan (the "Health Plan")</u>
The ESC participates in the Jefferson Health Plan, a risk-sharing, claims servicing, and insurance purchasing pool comprised of over one hundred members, including two insurance consortiums. Each participant appoints a member of the insurance plans' assembly. The Plans' business and affairs are conducted by a nine-member Board of Directors elected from the assembly. The plan offers medical, dental and prescription drug coverage to the members on a self-insured basis, as well as the opportunity to participate in the group purchasing of life insurance coverage. The medical coverage plan provides each plan participant the opportunity to choose a self-insurance deductible limit which can range from $35,000 to $150,000 under which the individual member is responsible for all claims through the claims servicing pool. Plan participants also participate in a shared risk internal pool for individual claims between the self-insurance deductible limit and $500,000, and all claims between the deductible and the $500,000 are paid from the internal shared risk pool. The internal pool is not owned by the plan participants.

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

All participants pay a premium rate that is actuarially calculated based on the participants' actual claims experience which are utilized for the payment of claims within the claims servicing pool up to the self-insurance deductible limit; and for this portion of the plan, all plan participants retain their own risk. All participants pay an additional fee for participation in the internal pool that is based on the claims of the internal pool in aggregate and is not based on individual claims experience. In the event of a deficiency in the internal pool, participants would be charged a higher rate for participation, and in the event of a surplus, the internal pool pays dividends to the participants. For all individual claims exceeding $500,000, stop loss coverage is purchased, as well as for an annual total plan aggregate claims amount. All plan participants also pay a monthly administrative fee for fiscal services and third party administrative services. The plan also purchases fully insured life insurance for plan participants provided by Met Life.

During fiscal year 2017, the ESC was fiscal agent for the Health Plan (See Note 4.B.).

<u>Workers' Compensation Group Rating Program</u>
The ESC participates in the Ohio Association of School Business Officials (OASBO)/ CompManagement, Inc. Workers' Compensation Group Rating Program (GRP). The GRP is sponsored by OASBO and administered by CompManagement, Inc. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The ESC pays a fee to the GRP to cover the costs of administering the program. Refer to Note 9.B. for further information on the GRP.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

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

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

<u>Capital Projects fund</u> - The capital projects fund is used to account for and report all financial resources related to the acquisition of property located on State Route 43, Steubenville, Ohio, and construct a new facility to serve as the central office for the ESC's operations and programs and also provide a facility for use by regional partners of the ESC.

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

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

PROPRIETARY FUND

Proprietary funds are used to account for the ESC's ongoing activities which are similar to those often found in the private sector where the determination of net income is necessary or useful to sound financial administration. The following is the ESC's proprietary fund:

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's trust fund is a private-purpose trust which accounts for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds account for various resources held for the Jefferson Health Plan and OME-RESA.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

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

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

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

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

The private-purpose trust fund is reported using the economic resources measurement focus. Agency funds do not report a measurement focus as they do not report operations.

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

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

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

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

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

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

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements 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 ESC, deferred inflows of resources include unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the ESC, unavailable revenue includes contract services and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the ESC, see Note 10 for deferred inflows of resources related to the ESC's net pension liability. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

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

E. Budgets

Although not legally required, the ESC adopts its budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the ESC (which are apportioned by the State Department of Education to each local board of education under the supervision of the ESC), and Part (C) includes the adopted appropriation resolution.

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

F. Cash and Investments

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

During fiscal year 2017, the ESC's investments were limited to non-negotiable certificates of deposits and State Treasury Asset Reserve (STAR) Plus. Investments in nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are recorded at cost.

In fiscal year 2017, the ESC invested in STAR Plus, a federally insured cash account powered by the Federally Insured Cash Account (FICA) program. STAR Plus enables political subdivisions to generate a competitive yield on cash deposits in a network of carefully-selected FDIC-insured banks via a single, convenient account. STAR Plus offers attractive yields with no market or credit risk, weekly liquidity and penalty free withdrawals. All deposits with STAR Plus have full FDIC insurance with no term commitment on deposits.

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

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. By policy of the Governing Board investment earnings are assigned to the general fund, the Self-Insurance internal service fund, (which is maintained by a fiscal agent in an interest-bearing account separate from the ESC's internal investment pool), and the private-purpose trust fund. Interest revenue credited to the general fund during fiscal year 2017 amounted to $6,159, which includes $1,162 assigned from other ESC funds.

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

An analysis of the ESC's investment account at year end is provided in Note 4.

G. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The ESC maintains a capitalization threshold of $5,000. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Description	Governmental Activities Estimated Lives
Buildings	40 years
Furniture and equipment	5 - 30 years
Vehicles	10 years

H. Interfund Balances

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

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

I. Compensated Absences

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

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if (a) the employees' rights to payment are attributable to services already rendered; and (b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) payments. A liability for sick leave is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and for all employees with at least 20 years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2017, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

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

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

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

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

K. Inventory

On the government-wide and fund financial statements, purchased inventories are presented at the lower of cost or market. Inventories are recorded on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the consumption method.

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

On the fund financial statements, reported material and supplies inventory is equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption.

L. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

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

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

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

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

M. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. The net position component "net investment in capital assets," consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

N. Prepayments

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

On the fund financial statements, reported prepayments are equally offset by a nonspendable fund balance in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of the net current position.

O. Estimates

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

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the ESC, these revenues are charges for services for a self-insurance program. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund.

Q. 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 basic financial statements. During fiscal year 2017, the ESC had no interfund activity.

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

R. Pensions

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

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2017.

T. Contributions and donations

In October 18, 2016, the ESC and the Board of Directors of the Jefferson Health Plan (JHP) signed a ninety-nine year lease agreement for space at a proposed new building facility located on State Route 43, Steubenville, Ohio (the “Facility”), that was to be constructed by the ESC. As part of the agreement, the JHP contributed $750,000 to the ESC as its share of the construction costs and the long-term lease of the Facility. The ESC intended to construct a portion of the Facility which contains the centralized infrastructure to support the JHP’s operations and the ESC’s duties and obligations as fiscal agent for the JHP. The Facility would provide the JHP, at a minimum, two thousand five hundred square feet of office space. In June of 2017, the ESC and the JHP agreed to abandon the Facility project, terminate the lease agreement, and return the original contribution to the JHP. The $750,000 contributed by the JHP in fiscal year 2017 will be returned to the JHP in fiscal year 2018. This amount is being reported as an intergovernmental payable in the capital projects fund at June 30, 2017.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

Change in Accounting Principles

For fiscal year 2017, the ESC has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the ESC.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the ESC.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the ESC.

GASB Statement No. 82 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. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the ESC.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

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

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

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

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

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

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

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

A. Cash with Fiscal Agent

The ESC is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2017, was $1,576,493.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Cash and Investments in Segregated Accounts

The ESC is fiscal agent for the Jefferson Health Plan and OME-RESA (See Note 2.A.). At June 30, 2017, $129,441,435 was held in agency funds on behalf of the Health Plan and OME-RESA. The deposits and investments of the Health Plan and OME-RESA are held separate from the ESC internal cash management pool. The data regarding insurance and collateralization of the Health Plan and OME-RESA deposits and investments can be obtained from the respective entity's separate financial statements for the fiscal year ended June 30, 2017.

C. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all ESC deposits was $2,139,251. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2017, $647,561 of the ESC's bank balance of $2,173,721 was exposed to custodial risk as discussed below, while $1,526,160 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the ESC's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the ESC. The ESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC to a successful claim by the FDIC.

D. Investments

The ESC had no investments at June 30, 2017.

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

Cash and investments per note		
Carrying amount of deposits	$	2,139,251
Cash with fiscal agent		1,576,493
Cash and investments in segregated accounts		129,441,435
Total	$	133,157,179
Cash and investments per statement of net position		
Governmental activities	$	3,624,102
Private-purpose trust funds		12,587
Agency funds		129,520,490
Total	$	133,157,179

NOTE 5 - RECEIVABLES

Receivables at June 30, 2017 consisted of intergovernmental (billings to school districts for user charged services, tuition and accrued interest) and accounts. All receivables are considered collectible in full. A summary of the principal items of receivables reported on the statement of net position follows:

Governmental activities:	
Intergovernmental	$ 45,050
Interest	1,534
Accounts	102,999
Total governmental activities	$ 149,583

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

NOTE 6 - CAPITAL ASSETS

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

	Balance 06/30/16	Additions	Deductions	Balance 06/30/17
Govermental activities:				
Capital assets, not being depreciated:				
Land	$ 102,679	$ 43,605	$ -	$ 146,284
Total capital assets, not being depreciated	102,679	43,605	-	146,284
Capital assets, being depreciated:				
Buildings	420,312	88,712	-	509,024
Furniture and equipment	522,810	-	(27,961)	494,849
Vehicles	27,806	20,133	-	47,939
Total capital assets, being depreciated	970,928	108,845	(27,961)	1,051,812
Less: accumulated depreciation:				
Buildings	(61,090)	(19,993)	-	(81,083)
Furniture and equipment	(424,236)	(33,669)	27,961	(429,944)
Vehicles	(7,172)	(5,133)	-	(12,305)
Total accumulated depreciation	(492,498)	(58,795)	27,961	(523,332)
Governmental activities capital assets, net	$ 581,109	$ 93,655	$ -	$ 674,764

NOTE 6 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 1,497
Special	672
Support services:	
Pupil	416
Instructional staff	70
Administration	55,167
Operations and maintenance	681
Central	26
Operations of non instructional	266
Total depreciation expense	$ 58,795

NOTE 7 - CAPITAL LEASES - LESSEE DISCLOSURE

In prior fiscal years, the ESC entered into a capitalized lease with Dollar Leasing Corporation for copier equipment. These lease agreements meet the criteria of a capital lease as defined by generally accepted accounting principles which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

Capital assets consisting of equipment have been capitalized in the amount of $34,059. This amount represents the present value of the minimum lease payments at the time of acquisition. Accumulated depreciation as of June 30, 2017 was $24,496, leaving a current book value of $9,503. A corresponding liability was recorded in the government-wide financial statements. Principal and interest payments in the 2017 fiscal year totaled $3,129 and $467, respectively, paid by the general fund.

The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2017:

Fiscal Year Ending June 30,	Amount
2018	$ 3,596
2019	3,596
2020	899
Total minimum lease payments	8,091
Less: Amount representing interest	(453)
Total	$ 7,638

NOTE 8 - LONG-TERM OBLIGATIONS

During the fiscal year 2017, the following activity occurred in governmental activities long-term obligations:

	Balance 06/30/16	Additions	Reductions	Balance 06/30/17	Amounts Due in One Year
Capital lease obligations	$ 10,767	$ -	$ (3,129)	$ 7,638	$ 3,289
Compensated absences	333,653	240,572	(221,273)	352,952	218,526
Net pension liability	6,839,406	2,433,829	-	9,273,235	-
Total	$ 7,183,826	$ 2,674,401	$ (224,402)	$ 9,633,825	$ 221,815

Capital Lease Obligation
See Note 7 for further information on the ESC's capital lease obligations.

Compensated Absences
Compensated absences will be paid from the fund from which the employees' salaries are paid, which consist of the general fund.

Net Pension Liability
See Note 10 for further information on the ESC's net pension liability. The ESC pays obligations related to employee compensation from the fund benefitting from their service.

NOTE 9 - RISK MANAGEMENT

A. Comprehensive

The ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. The ESC has a comprehensive property and casualty policy through Schools of Ohio Risk Sharing Authority. There is no deductible on any occurrences except $50,000 on Earth Movement and Floods. All Board members, administrators, and employees are covered under a school district liability policy. The limits of this coverage are $2,000,000 per occurrence and $4,000,000 per aggregate. The treasurer is covered under a surety bond in the amount of $250,000. The ESC also has an Employed Lawyers Liability policy through Illinois National Insurance Company. The policy covers up to $1,000,000 of liability for an in-house attorney.

Settled claims have not exceeded this commercial coverage in the past three years. There has been no significant reduction in coverage from fiscal year 2016.

NOTE 9 - RISK MANAGEMENT - (Continued)

B. Group Workers' Compensation Rating Plan

For fiscal year 2017, the ESC participated in the OASBO/CompManagement, Inc. Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is tiered into groups based upon past workers' compensation experience. Within each tiered group, a common premium rate is applied to all school districts within that group. Each participant pays its workers' compensation premium to the state based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of their tiered group. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of CompManagement, Inc. provides administrative, cost control and actuarial services to the GRP.

C. Employee Group Life, Medical, Dental and Vision Insurance

Medical/surgical, dental, and vision insurance is offered to employees through a self-insurance internal service fund. The ESC is a member of a claims servicing pool, consisting of school districts and other entities throughout the state, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the ESC's behalf. The plan is administered through the Jefferson Health Plan and provides stop loss protection of claims over $1,500,000 per individual per year. The claims liability of $51,286 as reported in the internal service fund at June 30, 2017, is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims.

Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Beginning Balance	Current Year Claims	Claims Payments	Ending Balance
2017	$ 77,722	$ 666,986	$ (693,422)	$ 51,286
2016	83,606	657,657	(663,541)	77,722

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. Net Pension Liability

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

B. Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The ESC's contractually required contribution to SERS was $271,138 for fiscal year 2017. Of this amount, $6,699 is reported as pension and postemployment benefits payable.

C. Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The ESC was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The ESC’s contractually required contribution to STRS was $215,025 for fiscal year 2017. Of this amount, $19,670 is reported as pension and postemployment benefits payable.

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

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.04100570%	0.01628096%	
Proportion of the net pension liability current measurement date	0.05890660%	0.01482333%	
Change in proportionate share	0.01790090%	(0.00145763)%	
Proportionate share of the net pension liability	$ 4,311,420	$ 4,961,815	$ 9,273,235
Pension expense	$ 937,391	$ 277,004	$ 1,214,395

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

At June 30, 2017, the ESC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 58,153	$ 200,482	$ 258,635
Net difference between projected and actual earnings on pension plan investments	355,627	411,964	767,591
Changes of assumptions	287,811	-	287,811
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	1,064,168	-	1,064,168
ESC contributions subsequent to the measurement date	271,138	215,025	486,163
Total deferred outflows of resources	$ 2,036,897	$ 827,471	$ 2,864,368
Deferred inflows of resources			
Difference between ESC contributions and proportionate share of contributions/ change in proportionate share	$ -	$ 337,657	$ 337,657

$486,163 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	$ 597,675	$ 12,029	$ 609,704
2019	597,421	12,028	609,449
2020	468,435	170,109	638,544
2021	102,228	80,623	182,851
Total	$ 1,765,759	$ 274,789	$ 2,040,548

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

E. Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (level percent of payroll)

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an experience study that was completed June 30, 2015.

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	$ 5,708,051	$ 4,311,420	$ 3,142,381

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

F. Actuarial Assumptions - STRS

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

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

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

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

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return *
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

* 10-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.50% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	$ 6,593,849	$ 4,961,815	$ 3,585,098

Changes Between Measurement Date and Report Date - In March 2017, the STRS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of July 1, 2016. The most significant changes are a reduction in the expected investment return to 7.45% from 7.75% and a change to updated generational mortality tables. Although the exact amount of these changes is not known, the impact to the ESC's net pension liability is expected to be significant.

NOTE 11 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description – In addition to a cost-sharing multiple-employer defined benefit pension plan described in Note 10, the School Employees Retirement System (SERS) administers two postemployment benefit plans.

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

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

NOTE 11 - POSTEMPLOYMENT BENEFITS - (Continued)

The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer 14 percent contributions to the Health Care Fund. For fiscal year 2017, none of the employer contribution was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. By statute no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, is the total amount assigned to the Health Care Fund.

The ESC's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $23,050, $26,747, and $17,780, respectively. The fiscal year 2017 amount has been reported as pension and postemployment benefits payable. The full amount has been contributed for fiscal years 2016 and 2015.

The SERS Retirement Board established the rules for the premiums paid by 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 services, Medicare eligibility, and retirement status.

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

B. State Teachers Retirement System

Plan Description – STRS Ohio administers a pension plan that is comprised of: a Defined Benefit Plan; a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefit Plan and the Defined Contribution Plan.

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

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Funding Policy – Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent employer contribution rate, no allocation was made to post-employment health care for the years ended June 30, 2017, June 30, 2016 and June 30, 2015. The 14 percent employer contribution rate is the maximum established under Ohio law.

NOTE 12 - CONTINGENCIES

A. Grants

The ESC 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds.

However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

NOTE 13 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget. Part (B) of the budget is funded in the following way: $37.00 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school ESCs to which the ESC provides services from payments made under the State's foundation program. Simultaneously, $27.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. This amount is pro-rated to stay within the appropriation in each fiscal year.

NOTE 14 - COMMITMENTS

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

Fund	Year-End Encumbrances
General fund	$ 22,501

NOTE 15 - INTERFUND TRANSACTIONS

Interfund loans receivable/payable at June 30, 2017 consisted of the following as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
General fund	$ 2,438	$ -
Nonmajor governmental funds	-	2,438
Total	$ 2,438	$ 2,438

The primary purpose of the interfund balances is to cover cash deficits at June 30. These interfund balances will be repaid once the anticipated cash is received. Interfund balances between governmental funds are eliminated on the government-wide statement of net position.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	**Final**	**Actual**	**(Negative)**
Revenues:				
From local sources:				
Services provided to other entities	$ 4,128,925	$ 3,390,050	$ 3,390,050	$ -
Tuition	1,576,479	1,526,593	1,526,593	-
Earnings on investments	4,500	6,159	6,159	-
Contributions and donations	1,500	10,975	10,975	-
Other local revenues	1,500	1,960	1,960	-
Intergovernmental - state	325,000	356,113	356,113	-
Total revenues	6,037,904	5,291,850	5,291,850	-
Expenditures:				
Current:				
Instruction:				
Regular	103,395	192,626	192,771	(145)
Special	499,925	578,037	578,472	(435)
Other	8,400	10,492	10,500	(8)
Support services:				
Pupil	1,074,585	1,076,695	1,077,505	(810)
Instructional staff	1,785,145	1,644,053	1,645,290	(1,237)
Board of education	17,940	16,154	16,166	(12)
Administration	2,191,486	1,973,934	1,975,420	(1,486)
Fiscal	322,310	280,114	280,325	(211)
Operations and maintenance	46,960	39,356	39,386	(30)
Facilities acquisition and construction	-	241,088	241,269	(181)
Total expenditures	6,050,146	6,052,549	6,057,104	(4,555)
Excess (deficiency) of revenues over (under) expenditures	(12,242)	(760,699)	(765,254)	(4,555)
Other financing sources (uses):				
Refund of prior year's expenditures	-	19,251	19,251	-
Refund of prior year's receipts	-	(450)	(450)	-
Transfers in	-	808,957	808,957	-
Transfers (out)	-	(808,957)	(808,957)	-
Advances in	-	347,885	347,885	-
Advances (out)	-	(380,439)	(380,439)	-
Sale of capital assets	-	84	84	-
Total other financing sources (uses)	-	(13,669)	(13,669)	-
Net change in fund balance	(12,242)	(774,368)	(778,923)	(4,555)
Fund balance at beginning of year	2,003,038	2,003,038	2,003,038	-
Prior year encumbrances appropriated	28,471	28,471	28,471	-
Fund balance at end of year	$ 2,019,267	$ 1,257,141	$ 1,252,586	$ (4,555)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

NOTE 1 - BUDGETARY PROCESS

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

The ESC Governing Board adopts an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. Although the legal level of budgetary control was established at the fund level of expenditures, the ESC has elected to present the general fund budgetary statement comparison schedule at the fund and function level. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget and actual (non GAAP budgetary basis) - for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

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

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

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

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

5. Some funds are included in the general fund (GAAP basis), but have separate budgets (budget-basis).

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

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

Net Change in Fund Balance

	General fund
Budget basis	$ (778,923)
Net adjustment for revenue accruals	22,650
Net adjustment for expenditure accruals	14,401
Net adjustment for other sources/uses	13,669
Adjustment for encumbrances	33,949
GAAP basis	$ (694,254)

The internal service rotary fund that is budgeted in a separate special revenue fund is considered part of the general fund on a GAAP basis.

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.05890660%	0.04100570%	0.02939100%	0.02939100%
ESC's proportionate share of the net pension liability	$ 4,311,420	$ 2,339,825	$ 1,487,462	$ 1,747,788
ESC's covered-employee payroll	$ 1,843,393	$ 1,234,484	$ 854,033	$ 788,158
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	233.89%	189.54%	174.17%	221.76%
Plan fiduciary net position as a percentage of the total pension liability	62.98%	69.16%	71.70%	65.52%

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

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

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST FOUR FISCAL YEARS

	2017	2016	2015	2014
ESC's proportion of the net pension liability	0.01482333%	0.01628096%	0.01631771%	0.01631771%
ESC's proportionate share of the net pension liability	$ 4,961,815	$ 4,499,581	$ 3,969,032	$ 4,727,885
ESC's covered-employee payroll	$ 1,554,429	$ 1,698,643	$ 1,667,223	$ 2,092,431
ESC's proportionate share of the net pension liability as a percentage of its covered-employee payroll	319.21%	264.89%	238.06%	225.95%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	72.10%	74.70%	69.30%

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

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

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 271,138	$ 258,075	$ 162,705	$ 118,369
Contributions in relation to the contractually required contribution	(271,138)	(258,075)	(162,705)	(118,369)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
ESC's covered-employee payroll	$ 1,936,700	$ 1,843,393	$ 1,234,484	$ 854,033
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	13.18%	13.86%

2013	2012	2011	2010	2009	2008
$ 109,081	$ 231,302	$ 204,068	$ 217,378	$ 152,467	$ 151,323
(109,081)	(231,302)	(204,068)	(217,378)	(152,467)	(151,323)
$ -	$ -	$ -	$ -	$ -	$ -
$ 788,158	$ 1,719,717	$ 1,623,453	$ 1,605,451	$ 1,549,461	$ 1,540,967
13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

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

LAST TEN FISCAL YEARS

	2017	2016	2015	2014
Contractually required contribution	$ 215,025	$ 217,620	$ 237,810	$ 216,739
Contributions in relation to the contractually required contribution	-	(217,620)	(237,810)	(216,739)
Contribution deficiency (excess)	$ 215,025	$ -	$ -	$ -
ESC's covered-employee payroll	$ 1,535,893	$ 1,554,429	$ 1,698,643	$ 1,667,223
Contributions as a percentage of covered-employee payroll	14.00%	14.00%	14.00%	13.00%

2013	2012	2011	2010	2009	2008
$ 272,016	$ 331,100	$ 402,590	$ 348,177	$ 365,837	$ 380,529
(272,016)	(331,100)	(402,590)	(348,177)	(365,837)	(380,529)
$ -	$ -	$ -	$ -	$ -	$ -
$ 2,092,431	$ 2,546,923	$ 3,096,846	$ 2,678,285	$ 2,814,131	$ 2,927,146
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

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

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

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

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

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

JAMES G. ZUPKA, C.P.A., INC.
Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants (216) 475 - 6136 Ohio Society of Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the Governing Board
Jefferson County Educational Service Center
Steubenville, Ohio

The Honorable Dave Yost
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson County Educational Service Center, Jefferson County, Ohio, (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 7, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

James G. Zupka, CPA, Inc.

James G. Zupka, CPA, Inc.
Certified Public Accountants

December 7, 2018

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER
JEFFERSON COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Number	Finding Summary	Status	Additional Information
2016-001	Finding for Recovery -Resolved Under Audit	Corrective Action taken and Finding is fully corrected.	None.
2016-002	Finding for Recovery -Resolved Under Audit	Corrective Action taken and Finding is fully corrected.	None.
2016-003	Finding for Recovery -Repaid Under Audit	Corrective Action taken and Finding is fully corrected.	None.

OHIO AUDITOR OF STATE
KEITH FABER

JEFFERSON COUNTY EDUCATIONAL SERVICE CENTER

JEFFERSON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JANUARY 17, 2019