KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

OHIO AUDITOR OF STATE
KEITH FABER

KNOX COUNTY EDUCATIONAL SERVICE CENTER
KNOX COUNTY
JUNE 30, 2018 and 2017

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KNOX COUNTY
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INDEPENDENT AUDITOR'S REPORT

Knox County Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Knox County Educational Service Center, Knox County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Budgetary Comparison schedule for the General fund presents additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2019, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

May 7, 2019

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

Financial Highlights

Key Financial Highlights for fiscal year 2018 are as follows:

- The Educational Service Center still offers the Minimum Essential Coverage (MEC) plan through FreedomCare at 100 percent Board cost to any employee working 130 hours or more each month. The ESC now also offers voluntary, supplemental plans through American Fidelity effective July 1, 2018. These plans include Flexible Spending Accounts, Disability, Life Insurance and Accident Insurance.

- Employees received step increases with their 2017-2018 contracts.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Educational Service Center as a financial whole, or complete operating entity.

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

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

These two statements report the Educational Service Center's net position and changes in that position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are classified as governmental. All of the Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 11. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

Governmental Funds

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

Proprietary Fund

Internal service funds are an accounting device used to accumulate and allocate costs internally among the Educational Service Center's various functions. The Educational Service Center's internal service fund accounts for dental and vision self insurance. The internal service fund uses the accrual basis of accounting.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Educational Service Center's programs. These funds use the accrual basis of accounting.

The Educational Service Center as a Whole

You may recall that the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2018 compared to 2017.

Table 1
Net Position
Governmental Activities

	2018	2017	Change
Assets			
Current and Other Assets	$1,143,152	$980,289	$162,863
Capital Assets, Net	71,877	107,136	(35,259)
Total Assets	1,215,029	1,087,425	127,604
Deferred Outflows of Resources			
Pension	2,412,886	2,693,522	(280,636)
OPEB	88,695	36,570	52,125
Total Deferred Outflows of Resources	2,501,581	2,730,092	(228,511)
Liabilities			
Current Liabilities	495,924	440,061	(55,863)
Long-Term Liabilities:			
Due Within One Year	38,382	24,587	(13,795)
Due in More Than One Year:			
Net Pension Liability	8,224,366	11,249,480	3,025,114
Net OPEB Liability	2,529,930	2,991,368	461,438
Other Amounts	164,795	157,006	(7,789)
Total Liabilities	11,453,397	14,862,502	3,409,105
Deferred Inflows of Resources			
Pension	850,206	541,885	(308,321)
OPEB	344,087	0	(344,087)
Total Deferred Inflows of Resources	1,194,293	541,885	(652,408)
Net Position			
Investment in Capital Assets	71,877	107,136	(35,259)
Restricted for:			
Student Activities	10,408	8,715	1,693
Staff Development	67,621	57,052	10,569
Daycare	28,421	0	28,421
Other Purposes	0	1,000	(1,000)
Unrestricted (Deficit)	(9,109,407)	(11,760,773)	2,651,366
Total Net Position	($8,931,080)	($11,586,870)	$2,655,790

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2018, and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For fiscal year 2018, the Educational Service Center adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other

Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed that follow, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

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

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

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

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

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

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

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

As a result of implementing GASB 75, the Educational Service Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($8,632,072) to ($11,586,870).

Table 2 shows revenues, expenses and changes in net position for fiscal years 2018 and 2017.

Table 2
Changes in Net Position
Governmental Activities

	2018	2017	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	$5,397,883	$4,789,530	$608,353
Operating Grants and Contributions	242,593	234,404	8,189
Total Program Revenues	5,640,476	5,023,934	616,542
General Revenues:			
Grants and Entitlements	237,580	248,812	(11,232)
Investment Earnings	2,414	1,335	1,079
Miscellaneous	9,903	33,359	(23,456)
Total General Revenues	249,897	283,506	(33,609)
Total Revenues	5,890,373	5,307,440	582,933
Program Expenses			
Instruction:			
Regular	91,470	76,833	(14,637)
Special	2,218,156	3,595,151	1,376,995
Support Services:			
Pupils	198,240	809,555	611,315
Instructional Staff	181,626	213,941	32,315
Board of Education	16,973	27,877	10,904
Administration	398,802	874,228	475,426
Fiscal	95,630	129,662	34,032
Operation and Maintenance of Plant	21,356	27,539	6,183
Central	8,444	6,098	(2,346)
Extracurricular Activities	3,886	4,185	299
Total Program Expenses	3,234,583	5,765,069	2,530,486
Change in Net Position	2,655,790	(457,629)	3,113,419
Net Position Beginning of Year	(11,586,870)	N/A	
Net Position End of Year	($8,931,080)	($11,586,870)	$2,655,790

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $36,570 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $120,240. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$3,234,583
Negative OPEB expense under GASB 75	120,240
2018 contractually required contribution	49,236
Adjusted 2018 program expenses	3,404,059
Total 2017 program expenses under GASB 45	5,765,069
Decrease in program expenses not related to OPEB	($2,361,010)

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption (see Note 13). As a result of these changes, pension expense decreased from $1,008,487 in fiscal year 2017 to a negative pension expense of $1,814,980 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

Program Expenses	2018 Program Expenses Related to Negative Pension Expense
Instruction:	
Special	($931,380)
Support Services:	
Pupils	(499,366)
Instructional Staff	(2,078)
Administration	(377,297)
Fiscal	(3,853)
Operation and Maintenance of Plant	(1,006)
Total Expenses	($1,814,980)

Governmental Activities

A review of Table 2 shows the Educational Service Center net position increased from fiscal year 2017. Revenues increased due to an increase in charges for services and sales program revenues while expenses decreased significantly from the prior fiscal year due to the decrease in pension expense discussed previously. The Educational Service Center continues to scrutinize every purchase in order to control expenses.

The statement of activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by general revenue.

Table 3
Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Governmental Activities:				
Instruction:				
Regular	$91,470	($91,470)	$76,833	($76,833)
Special	2,218,156	3,391,114	3,595,151	1,357,699
Support Services:				
Pupils	198,240	(197,353)	809,555	(766,896)
Instructional Staff	181,626	(155,382)	213,941	(191,306)
Board of Education	16,973	(16,973)	27,877	(27,877)
Administration	398,802	(400,306)	874,228	(874,228)
Fiscal	95,630	(95,630)	129,662	(129,662)
Operation and Maintenance of Plant	21,356	(21,356)	27,539	(27,539)
Central	8,444	(8,444)	6,098	(6,098)
Extracurricular Activities	3,886	1,693	4,185	1,605
Total	$3,234,583	$2,405,893	$5,765,069	($741,135)

The Educational Service Center's Funds

Information regarding the Educational Service Center's governmental funds can be found on pages 16 through 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had an increase in fund balance for fiscal year 2018, with increases in both revenues and expenditures. The general fund is the most significant and had the largest change in fund balance. The general fund had an increase in revenues for fiscal year 2018, primarily customer services, and an increase in expenditures, mainly special instruction and pupils and administration support services.

General Fund Budgeting Highlights

There are no requirements for the Educational Service Center identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary process that is followed is for control purposes. The most significant fund to be budgeted is the main operating fund of the Educational Service Center – the general fund.

For the general fund, final budget basis appropriations were slightly higher than the original estimate. Actual expenditures were less than the final estimate due to conservative budgeting.

The general fund had an increase in revenues for fiscal year 2018, primarily customer services, as well as an increase in expenditures, mainly special instruction and pupils support services.

Capital Assets

All capital assets are reported net of depreciation. There was a decrease in capital assets during the fiscal year due to asset deletions and current year depreciation. No purchases of capital assets were made during fiscal year 2018. More detailed information is presented in Note 8 to the basic financial statements.

Debt

At June 30, 2018, the Educational Service Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences, net pension liability, and net OPEB liability. For additional information on long-term liabilities, see Note 9 to the basic financial statements.

Current Related Financial Activities

In prior fiscal years, the Educational Service Center faced several cash flow issues related to self-insurance and rising expenditures in the general fund. A fifteen percent increase in insurance premiums was implemented effective July 1, 2011, and employees were responsible for the entire premium increase in fiscal year 2012. The Educational Service Center continued to explore ways of reducing the deficit in fiscal year 2013 and was able to end the year with a positive cash balance in the general fund. The largest savings in fiscal year 2013 was the elimination of the medical and prescription drug insurance coverage that was previously provided through a self-insured program. One of the medical coverage plans provided to employees in fiscal year 2015 was an indemnity plan that provided limited reimbursement for medical expenses. This plan had a much lower cost to the Educational Service Center, as compared to the self-insured program, but provided much less coverage to employees. In June 2017, the Educational Service Center had to terminate the indemnity plan due to low participation. The plan required a minimum number of employees be enrolled in the plan at any time and the Educational Service Center had not met that requirement in any of fiscal year 2016. The Educational Service Center offers a MEC plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for. The cost of this plan remains much less than what the self-insured plan was in the past. The ESC now also offers voluntary, supplemental coverage through American Fidelity as a benefit to employees as well. These plans include Flexible Spending Accounts, Disability, Accident and Life Insurance and are 100 percent employee paid.

The Educational Service Center Governing Board continues to rely on generating different sources of revenue in addition to the financial resources provided from the State foundation program. With the implementation of the House Bill 115, the Educational Service Center, as of July 1, 2007, no longer serves as the fiscal agent for the North Central Ohio Special Education Regional Resource Center (NCO-SERRC) and the NCO-SERRC is no longer in existence. The services provided by the NCO-SERRC became part of the services provided by the State Support Team Region 7 (SST) as of July 1, 2007. The Educational Service Center still holds some money in an agency fund for NCO-SERRC which will be spent by SST as expenses are incurred.

The Educational Service Center relies heavily on not only contracts with local districts, State foundation revenue, but grants and other revenue it is able to generate. The fact that educational service centers are not fully funded by the State makes it imperative that the Educational Service Center looks for other sources of revenue to sustain the level of quality services it now provides to its stakeholders. The Educational Service Center is also committed to assisting local districts to improve their instructional programs and to develop school improvement strategies. The Educational Service Center has been able to secure grant funding in several areas that provide services and opportunities for students in the school districts served by the

Educational Service Center. Additional revenue was generated by providing professional development to the school districts served by the Educational Service Center and providing speech and occupational therapy services to outside organizations. The Educational Service Center also continued charging an administration fee for all services provided to local districts. In fiscal year 2014, this fee was increased from three percent to four percent.

Irrespective of the instability of funding in the State of Ohio and the uncertainty of how educational service centers deliver services on a regional basis, the Educational Service Center is committed to providing the best service possible and to be fiscally responsible in its operation. The challenge that faces the Educational Service Center operation is not in providing quality services, but the uncertainty of how the Educational Service Center will deliver mandated services and what those services should be.

The Educational Service Center has an efficient system of budgetary processes and controls. Internal departmental budgets provide additional administrative accountability in administering the budget.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brittany Keller, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050.

Knox County Educational Service Center

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$847,581
Intergovernmental Receivable	295,571
Depreciable Capital Assets, Net	71,877
Total Assets	1,215,029
Deferred Outflows of Resources	
Pension	2,412,886
OPEB	88,695
Total Deferred Outflows of Resources	2,501,581
Liabilities	
Accounts Payable	8,025
Accrued Wages Payable	383,225
Intergovernmental Payable	104,674
Long-Term Liabilities:	
Due Within One Year	38,382
Due In More Than One Year:	
Net Pension Liability (See Note 13)	8,224,366
Net OPEB Liability (See Note 14)	2,529,930
Other Amounts	164,795
Total Liabilities	11,453,397
Deferred Inflows of Resources	
Pension	850,206
OPEB	344,087
Total Deferred Inflows of Resources	1,194,293
Net Position	
Investment in Capital Assets	71,877
Restricted for:	
Student Activities	10,408
Staff Development	67,621
Daycare	28,421
Unrestricted (Deficit)	(9,109,407)
Total Net Position	($8,931,080)

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$91,470	$0	$0	($91,470)
Special	2,218,156	5,392,304	216,966	3,391,114
Support Services:				
Pupils	198,240	0	887	(197,353)
Instructional Staff	181,626	0	26,244	(155,382)
Board of Education	16,973	0	0	(16,973)
Administration	398,802	0	(1,504)	(400,306)
Fiscal	95,630	0	0	(95,630)
Operation and Maintenance of Plant	21,356	0	0	(21,356)
Central	8,444	0	0	(8,444)
Extracurricular Activities	3,886	5,579	0	1,693
Totals	$3,234,583	$5,397,883	$242,593	2,405,893

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	237,580
Investment Earnings	2,414
Miscellaneous	9,903
Total General Revenues	249,897
Change in Net Position	2,655,790
Net Position Beginning of Year - Restated (See Note 3)	(11,586,870)
Net Position End of Year	($8,931,080)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	$763,220	$79,490	$842,710
Interfund Receivable	29,009	0	29,009
Intergovernmental Receivable	231,461	64,110	295,571
Total Assets	$1,023,690	$143,600	$1,167,290
Liabilities			
Accounts Payable	$8,025	$0	$8,025
Accrued Wages Payable	351,848	31,377	383,225
Interfund Payable	0	29,009	29,009
Intergovernmental Payable	99,043	5,631	104,674
Total Liabilities	458,916	66,017	524,933
Deferred Inflows of Resources			
Unavailable Revenue	0	2,556	2,556
Fund Balances			
Restricted	0	109,481	109,481
Assigned	74,222	0	74,222
Unassigned (Deficit)	490,552	(34,454)	456,098
Total Fund Balances	564,774	75,027	639,801
Total Liabilities, Deferred Inflows and Fund Balances	$1,023,690	$143,600	$1,167,290

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total Governmental Funds Balances		$639,801
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		71,877
Other long-term assets, such as intergovernmental receivables, are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds.		2,556
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 in the statement of net position.		4,871
The net pension and net OPEB liability are not due and payable in the current period; therefore, the liabilities and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows - Pension	2,412,886	
Deferred Outflows - OPEB	88,695	
Net Pension Liability	(8,224,366)	
Net OPEB Liability	(2,529,930)	
Deferred Inflows - Pension	(850,206)	
Deferred Inflows - OPEB	(344,087)	
Total		(9,447,008)
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(203,177)
Net Position of Governmental Activities		($8,931,080)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	$255,728	$184,734	$440,462
Interest	2,414	0	2,414
Tuition and Fees	240,545	0	240,545
Extracurricular Activities	0	5,579	5,579
Contributions and Donations	0	45,594	45,594
Customer Services	5,151,759	0	5,151,759
Miscellaneous	9,903	0	9,903
Total Revenues	5,660,349	235,907	5,896,256
Expenditures			
Current:			
Instruction:			
Regular	86,316	567	86,883
Special	3,438,602	170,378	3,608,980
Support Services:			
Pupils	853,565	5,056	858,621
Instructional Staff	146,251	29,538	175,789
Board of Education	16,973	0	16,973
Administration	889,731	6,387	896,118
Fiscal	103,476	0	103,476
Operation and Maintenance of Plant	24,203	0	24,203
Central	6,080	0	6,080
Extracurricular Activities	0	3,886	3,886
Total Expenditures	5,565,197	215,812	5,781,009
Net Change in Fund Balances	95,152	20,095	115,247
Fund Balances Beginning of Year	469,622	54,932	524,554
Fund Balances End of Year	$564,774	$75,027	$639,801

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended June 30, 2018

Net Change in Fund Balances - Total Governmental Funds		$115,247
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 depreciation expense exceeded capital outlay, which there was none, in the current period.		(33,453)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal.		(1,806)
Intergovernmental revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(5,883)
The internal service fund used by management to charge the cost of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for the governmental funds is reported for the year.		(2,364)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:		
Pension	621,177	
OPEB	49,236	
Total		670,413
Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liabilities are reported as pension/OPEB expense in the statement of activities:		
Pension	1,814,980	
OPEB	120,240	
Total		1,935,220
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(21,584)
Change in Net Position of Governmental Activities		$2,655,790

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Fund Net Position

Internal Service Fund

June 30, 2018

	Insurance
Assets	
Equity in Pooled Cash and Cash Equivalents	$4,871
Liabilities	0
Net Position	
Unrestricted	$4,871

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2018

	Insurance
Operating Revenues	
Charges for Services	$20,203
Operating Expenses	
Purchased Services	4,361
Claims	18,317
Total Operating Expenses	22,678
Operating Loss	(2,475)
Non-Operating Revenues	
Interest	111
Change in Net Position	(2,364)
Net Position Beginning of Year	7,235
Net Position at End of Year	$4,871

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2018

	Insurance
Decrease in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	$20,203
Cash Payments for Goods and Services	(4,361)
Cash Payments for Claims	(18,317)
Net Cash Used for Operating Activities	(2,475)
Cash Flows from Investing Activities	
Interest on Investments	111
Decrease in Cash and Cash Equivalents	(2,364)
Cash and Cash Equivalents Beginning of Year	7,235
Cash and Cash Equivalents End of Year	$4,871

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Private Purpose Trust	
	Wolfe Estate	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	$13,221	$87,024
Liabilities		
Undistributed Monies	0	$87,024
Net Position		
Held in Trust for Scholarships	$13,221	

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Changes in Fiduciary Net Position

Private Purpose Trust Fund

For the Fiscal Year Ended June 30, 2018

	Wolfe Estate
Additions	
Interest	$137
Deductions	0
Change in Net Position	137
Net Position Beginning of Year	13,084
Net Position End of Year	$13,221

See accompanying notes to the basic financial statements

Note 1 – Description of the Educational Service Center and Reporting Entity

On July 18, 1914, the Knox County Educational Service Center ("Educational Service Center") was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to area school districts.

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and Federal agencies. The Board controls the Educational Service Center's support facilities staffed by 251 full and part time non-certificated and 82 full and part time certificated teaching personnel, and 10 administrators who provide services to 8,078 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and related activities of the Educational Service Center.

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

The Educational Service Center participates in two jointly governed organizations and one insurance purchasing pool. These organizations are presented in Notes 10 and 11 to the basic financial statements. These organizations are the Knox County Career Center, META Solutions, and the Ohio School Boards Association Workers' Compensation Group Rating Program.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type. The Educational Service Center, however, has no business-type activities.

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

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

Fund Accounting

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

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

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

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the Educational Service Center has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for self insurance dental and vision claims for Educational Service Center employees.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private-purpose trust fund established to account for funds from an estate with the interest specifically designated to be used for college scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for resources for services provided by the State Support Team Region 7 (SST). The remainder of the money in the agency fund will be spent by SST as expenses are incurred.

Measurement Focus

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities 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 Educational Service Center finances and meets the cash flow needs of its internal service fund.

The private-purpose trust fund is reported using the economic resources measurement focus.

Basis of Accounting

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

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

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: grants, interest, tuition, fees and customer services.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 13 and 14.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue, pension and OPEB plans. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balances to net position of governmental activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position (see Notes 13 and 14).

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.

Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to $2,414, of which $270 was assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

Capital Assets

All capital assets of the Educational Service Center are classified as general capital assets. 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 Educational Service Center maintains a capitalization threshold of $500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Furniture, Fixtures and Equipment	6 - 10 years

Interfund Balances

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

Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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

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

Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds; however, compensated absences 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 fiscal year. Net pension/OPEB liabilities should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plans' fiduciary net position are not sufficient for payment of those benefits.

Pensions/Other Postemployment Benefits (OPEB)

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

Fund Balance

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board of Education 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 Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the Educational Service Center Board of Education. In the general fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order, provided such amounts have been lawfully appropriated.

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 used only to report a deficit balance.

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

Estimates

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

Note 3 – Changes in Accounting Principles and Restatement of Net Position

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

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

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

GASB 75 established standards for measuring and recognizing Postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2017:

Net Position June 30, 2017	($8,632,072)
Adjustments:	
Net OPEB Liability	(2,991,368)
Deferred Outflow - Payments Subsequent to Measurement Date	36,570
Restated Net Position June 30, 2017	($11,586,870)

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

Note 4 – Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Investments

As of June 30, 2018, the Educational Service Center's only investment was in STAR Ohio, which is measured at net asset value per share.

Interest Rate Risk The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that investment must be purchased with the expectation that it will be held to maturity.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

Note 5 – Fund Balances

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

Fund Balances	General	Other Governmental Funds	Total
Restricted for:			
Student Activities	$0	$10,408	$10,408
Staff Development	0	67,621	67,621
Daycare	0	31,452	31,452
Total Restricted	0	109,481	109,481
Assigned to:			
Purchases on Order	74,222	0	74,222
Unassigned (Deficit)	490,552	(34,454)	456,098
Total Fund Balances	$564,774	$75,027	$639,801

Note 6 – Receivables

Receivables at June 30, 2018, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year. Intergovernmental receivables in governmental activities are due to customer services.

Note 7 – State Funding

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of $27 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to $11.00 times the school district's total student count and remits this amount to the Educational Service Center.

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

Note 8 – Capital Assets

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

	Balance 7/1/2017	Additions	Deductions	Balance 6/30/2018
Governmental Activities				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	$395,912	$0	($18,059)	$377,853
Less Accumulated Depreciation	(288,776)	(33,453) *	16,253	(305,976)
Governmental Activities Capital Assets, Net	$107,136	($33,453)	($1,806)	$71,877

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$4,587
Special	12,441
Support Services:	
Pupils	499
Instructional Staff	9,719
Administration	6,106
Fiscal	101
Total Depreciation Expense	$33,453

Note 9 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2018 were as follows:

	Amount Outstanding 7/1/2017	Additions	Deletions	Amount Outstanding 6/30/2018	Amount Due in One Year
Governmental Activities:					
Compensated Absences	$181,593	$46,171	$24,587	$203,177	$38,382
Net Pension Liability:					
STRS	6,127,480	0	1,965,671	4,161,809	0
SERS	5,122,000	0	1,059,443	4,062,557	0
Total Net Pension Liability	11,249,480	0	3,025,114	8,224,366	0
Net OPEB Liability:					
STRS	978,995	0	295,446	683,549	0
SERS	2,012,373	0	165,992	1,846,381	0
Total Net OPEB Liability	2,991,368	0	461,438	2,529,930	0
Total Long-Term Liabilities	$14,422,441	$46,171	$3,511,139	$10,957,473	$38,382

Compensated absences will be paid from the general fund and public school preschool, miscellaneous state grants, and IDEA preschool special revenue funds. There is no repayment schedule for the net pension liability and the net OPEB liability; however, employer pension and OPEB contributions are made from the following funds: general fund and other grants, public school preschool, alternative center preschool, miscellaneous state grants, and IDEA preschool special revenue funds. For additional information related to net pension liability and net OPEB liability, see Notes 13 and 14.

Note 10 – Jointly Governed Organizations

Knox County Career Center The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center paid $4,800 for services during fiscal year 2018. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

META Solutions META Solutions is jointly governed organization among 128 member districts. META Solutions was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports META Solutions based upon a per pupil charge dependent upon the software package utilized. META Solutions is governed by a board of directors consisting of superintendents of the members' districts. The degree of control exercised by any participating school district is limited to its representation on the board. The Educational Service Center paid $17,142 for services during fiscal year 2018. Audited yearly financial statements are available at META Solutions, 100 Executive Drive, Marion, Ohio, 43302.

Note 11 – Insurance Purchasing Pool

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

Note 12 – Risk Management

Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the Educational Service Center contracted with the Ohio School Plan for property and general liability insurance.

Professional liability is protected by the Ohio School Plan with a $3,000,000 annual aggregate/$1,000,000 single occurrence limit and no deductible. Settled claims have not exceeded this commercial coverage in any of the past four years. There have been no significant reductions in insurance coverage from last year.

Workers' Compensation

For fiscal year 2018, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the

GRP rather than its individual rate. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

Self-Insurance

Beginning in fiscal year 2009, the Educational Service Center offered medical, surgical and prescription drug claims coverage to all employees through a self-insurance internal service fund. Self-Funded Plans, Incorporated serves as the third party administrator. As of July 1, 2012, the Educational Service Center was no longer self-insured for health insurance but is still self-insured for dental and vision. The self-insurance fund is being utilized for current dental and vision claims. As of June 30, 2018, there is no claims liability in the fund. Changes in the fund’s claims liability amount in fiscal year 2017 and 2018 were:

Fiscal Year	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2017	$0	$17,269	$17,269	$0
2018	0	18,317	18,317	0

Note 13 – Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability

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

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

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

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

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 14 for the required OPEB disclosures.

Plan Description – State Teachers Retirement System (STRS)

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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

The Educational Service Center's contractually required contribution to STRS was $297,083 for fiscal year 2018. Of this amount $37,658 is reported as an intergovernmental payable.

Plan Description – School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Educational Service Center's contractually required contribution to SERS was $324,094 for fiscal year 2018. Of this amount $15,422 is reported as an intergovernmental payable.

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

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

	STRS	SERS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.01830573%	0.06998150%	
Proportion of the Net Pension Liability Current Measurement Date	0.01751956%	0.06799510%	
Change in Proportionate Share	-0.00078617%	-0.00198640%	
Proportionate Share of the Net Pension Liability	$4,161,809	$4,062,557	$8,224,366
Pension Expense	($1,662,470)	($152,510)	($1,814,980)

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

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$160,710	$174,838	$335,548
Changes of Assumptions	910,234	210,078	1,120,312
Changes in Proportionate Share and Difference between Educational Service Center Contributions and Proportionate Share of Contributions	205,762	130,087	335,849
Educational Service Center Contributions Subsequent to the Measurement Date	297,083	324,094	621,177
Total Deferred Outflows of Resources	$1,573,789	$839,097	$2,412,886
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	$33,543	$0	$33,543
Net Difference between Projected and Actual Earnings on Pension Plan Investments	137,345	19,284	156,629
Changes in Proportionate Share and Difference between Educational Service Center Contributions and Proportionate Share of Contributions	521,812	138,222	660,034
Total Deferred Inflows of Resources	$692,700	$157,506	$850,206

$621,177 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2019	$131,798	$156,648	$288,446
2020	318,632	258,672	577,304
2021	107,498	36,883	144,381
2022	26,078	(94,706)	(68,628)
Total	$584,006	$357,497	$941,503

Actuarial Assumptions – STRS

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

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

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

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

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

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

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2017. The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described previously. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2017. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2017.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$5,965,813	$4,161,809	$2,642,208

Actuarial Assumptions – SERS

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

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$5,637,773	$4,062,557	$2,742,992

Note 14 – Defined Benefit OPEB Plans

See Note 13 for a description of the net OPEB liability.

Plan Description – State Teachers Retirement System (STRS)

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

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

Plan Description – School Employees Retirement System (SERS)

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

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Educational Service Center's surcharge obligation was $37,233.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was $49,236 for fiscal year 2018. Of this amount $37,804 is reported as an intergovernmental payable.

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

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

	STRS	SERS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.01830573%	0.07060040%	
Proportion of the Net OPEB Liability Current Measurement Date	0.01751956%	0.06879890%	
Change in Proportionate Share	-0.00078617%	-0.00180150%	
Proportionate Share of the Net OPEB Liability	$683,549	$1,846,381	$2,529,930
OPEB Expense	($214,588)	$94,348	($120,240)

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

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$39,459	$0	$39,459
Educational Service Center Contributions Subsequent to the Measurement Date	0	49,236	49,236
Total Deferred Outflows of Resources	$39,459	$49,236	$88,695
Deferred Inflows of Resources			
Changes of Assumptions	$55,062	$175,212	$230,274
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	29,217	4,876	34,093
Changes in Proportionate Share and Difference between Educational Service Center Contributions and Proportionate Share of Contributions	36,038	43,682	79,720
Total Deferred Inflows of Resources	$120,317	$223,770	$344,087

$49,236 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2019	($15,911)	($80,529)	($96,440)
2020	(15,911)	(80,529)	(96,440)
2021	(15,911)	(61,494)	(77,405)
2022	(15,911)	(1,218)	(17,129)
2023	(8,607)	0	(8,607)
Thereafter	(8,607)	0	(8,607)
Total	($80,858)	($223,770)	($304,628)

Actuarial Assumptions – STRS

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

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

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

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 13.

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$917,653	$683,549	$498,530

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's Proportionate Share of the Net OPEB Liability	$474,900	$683,549	$958,154

Actuarial Assumptions – SERS

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

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

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

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

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

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 13.

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$2,229,741	$1,846,381	$1,542,663

	1% Decrease (6.5% decreasing to 4.0%)	Current Trend Rate (7.5% decreasing to 5.0%)	1% Increase (8.5% decreasing to 6.0%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$1,498,200	$1,846,381	$2,307,206

Note 15 – Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from State laws. Administrators that work 12 months earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Employees working less than 12 months per year do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for 180-day employees and 200 days for 260-day employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

Life Insurance is provided through Fort Dearborn Life Insurance Company. The Governing Board pays 100 percent of the premium. Coverage is $40,000 life and an additional $40,000 Accidental Death, Dismemberment, and Loss of Sight.

Dental and vision insurance is provided through OME-RESA (see note 12). The Educational Service Center also offers a Minimum Essential Coverage (MEC) plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for.

Note 16 – Contingencies

Grants

The Educational Service Center received financial assistance from federal and State 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 adverse effect on the overall financial position of the Educational Service Center at June 30, 2018.

Foundation Funding

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by the schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2018 Foundation funding, with the Educational Service Center having paid back $163. This is not reflected on the financial statements.

Litigation

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

Note 17 – Interfund Balances

The interfund receivable of $29,009 in general fund represents advances to other governmental funds to offset deficit cash at June 30, 2018.

Note 18 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were $90,481 and $1,074 in the general fund and other governmental funds, respectively.

Note 19 – Accountability

At June 30, 2018, the Educational Service Center had deficit fund balances of $3,590, $5,217, $25,210, and $437 in the alternative center preschool, miscellaneous state grants, preschool grant, and miscellaneous federal grants special revenue funds, respectively. The special revenue funds' deficits resulted from adjustments for accrued liabilities and from interfund payables. The general fund provided money to operate the programs until grants and other monies are received and the advances can be repaid. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

Knox County Educational Service Center

Required Supplementary Information

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

State Teachers Retirement System of Ohio

Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.01751956%	0.01830573%	0.02024564%	0.01846323%	0.01846323%
Educational Service Center's Proportionate Share of the Net Pension Liability	$4,161,809	$6,127,480	$5,595,302	$4,490,897	$5,349,527
Educational Service Center's Covered Payroll	$1,923,643	$1,901,429	$2,176,450	$1,929,836	$2,095,262
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	216.35%	322.26%	257.08%	232.71%	255.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

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

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

See accompanying notes to the required supplementary information

Knox County Educational Service Center

Required Supplementary Information

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

School Employees Retirement System of Ohio

Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.06799510%	0.06998150%	0.06507680%	0.06822300%	0.06822300%
Educational Service Center's Proportionate Share of the Net Pension Liability	$4,062,557	$5,122,000	$3,713,346	$3,452,728	$4,057,003
Educational Service Center's Covered Payroll	$2,285,914	$2,158,079	$1,962,614	$2,005,885	$1,926,145
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	177.72%	237.34%	189.20%	172.13%	210.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

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

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

See accompanying notes to the required supplementary information

Knox County Educational Service Center

Required Supplementary Information

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

State Teachers Retirement System of Ohio

Last Two Fiscal Years (1)

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.01751956%	0.01830573%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$683,549	$978,995
Educational Service Center's Covered Payroll	$1,923,643	$1,901,429
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.53%	51.49%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

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

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

See accompanying notes to the required supplementary information

Knox County Educational Service Center

Required Supplementary Information

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

School Employees Retirement System of Ohio

Last Two Fiscal Years (1)

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.06879890%	0.07060040%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$1,846,381	$2,012,373
Educational Service Center's Covered Payroll	$2,285,914	$2,158,079
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	80.77%	93.25%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

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

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

See accompanying notes to the required supplementary information

Knox County Educational Service Center

Required Supplementary Information
Schedule of the Educational Service Center's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$297,083	$269,310	$266,200	$304,703
Contributions in Relation to the Contractually Required Contribution	(297,083)	(269,310)	(266,200)	(304,703)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll (1)	$2,122,021	$1,923,643	$1,901,429	$2,176,450
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%
Net OPEB Liability				
Contractually Required Contribution	$0	$0	$0	$0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%
Total Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

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

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
$250,879	$272,384	$275,860	$271,119	$291,758	$287,320
(250,879)	(272,384)	(275,860)	(271,119)	(291,758)	(287,320)
$0	$0	$0	$0	$0	$0
$1,929,836	$2,095,262	$2,122,000	$2,085,531	$2,244,292	$2,210,154
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$19,298	$20,953	$21,220	$20,855	$22,443	$22,102
(19,298)	(20,953)	(21,220)	(20,855)	(22,443)	(22,102)
$0	$0	$0	$0	$0	$0
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Knox County Educational Service Center

Required Supplementary Information

Schedule of the Educational Service Center's Contributions

School Employees Retirement System of Ohio

Last Ten Fiscal Years

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$324,094	$320,028	$302,131	$258,673
Contributions in Relation to the Contractually Required Contribution	(324,094)	(320,028)	(302,131)	(258,673)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll (1)	$2,400,696	$2,285,914	$2,158,079	$1,962,614
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
Net OPEB Liability				
Contractually Required Contribution (2)	$49,236	$36,570	$34,359	$49,650
Contributions in Relation to the Contractually Required Contribution	(49,236)	(36,570)	(34,359)	(49,650)
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	2.05%	1.60%	1.59%	2.53%
Total Contributions as a Percentage of Covered Payroll (2)	15.55%	15.60%	15.59%	15.71%

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

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
$278,016	$266,578	$246,200	$244,104	$247,998	$184,384
(278,016)	(266,578)	(246,200)	(244,104)	(247,998)	(184,384)
$0	$0	$0	$0	$0	$0
$2,005,885	$1,926,145	$1,830,480	$1,941,956	$1,831,596	$1,873,817
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
$35,476	$41,605	$46,678	$66,609	$45,057	$115,141
(35,476)	(41,605)	(46,678)	(66,609)	(45,057)	(115,141)
$0	$0	$0	$0	$0	$0
1.77%	2.16%	2.55%	3.43%	2.46%	6.14%
15.63%	16.00%	16.00%	16.00%	16.00%	15.98%

Net Pension Liability

Changes in Assumptions – STRS

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

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

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

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

Changes in Assumptions – SERS

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

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

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

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

Net OPEB Liability

Changes in Assumptions – STRS

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

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

Changes in Assumptions – SERS

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

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

Additional Supplementary Information

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

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
Revenues				
Intergovernmental			$255,728	
Interest			1,890	
Tuition and Fees			240,545	
Customer Services			4,964,605	
Miscellaneous			38,665	
Total Revenues			5,501,433	
Expenditures				
Current:				
Instruction:				
Regular	134,968	134,968	104,124	30,844
Special	3,865,838	3,868,838	3,456,880	411,958
Support Services:				
Pupils	886,845	886,845	838,237	48,608
Instructional Staff	234,198	234,198	171,351	62,847
Board of Education	32,165	32,165	17,542	14,623
Administration	1,113,929	1,113,929	883,855	230,074
Fiscal	188,040	188,040	103,611	84,429
Operation and Maintenance of Plant	49,470	49,470	26,192	23,278
Central	10,245	10,245	9,770	475
Total Expenditures	6,515,698	6,518,698	5,611,562	907,136
Net Change in Fund Balance	(6,515,698)	(6,518,698)	(110,129)	
Fund Balance Beginning of Year			668,613	
Prior Year Encumbrances Appropriated			142,740	
Fund Balance End of Year			$701,224	

See accompanying notes to the additional supplementary information

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The budgetary process that is followed by the Educational Service Center is for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board. During the year, several supplemental appropriations were enacted, which represented the appropriation of available resources. The budget figures, which appear in the schedule of budgetary comparisons, represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue funds 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:

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

2. Unreported cash represents amounts received but not included as revenue on the budget basis operating statements. These amounts are included as revenue on the GAAP basis operating statement.

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

4. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

Net Change in Fund Balance
General Fund

	General
GAAP Basis	$95,152
Net Adjustment for Revenue Accruals	(158,392)
Unrecorded Interest	(524)
Net Adjustment for Expenditure Accruals	44,116
Encumbrances	(90,481)
Budget Basis	($110,129)

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

Financial Highlights

Key Financial Highlights for fiscal year 2017 are as follows:

- The Indemnity plan has been terminated effective June 30, 2017 due to low participation. Nationwide requires a minimum of 10 employees be enrolled and the Educational Service Center only had two who wanted to participate. The Educational Service Center still offers the Minimum Essential Coverage (MEC) plan through FreedomCare at 100 percent Board cost to any employee working 130 hours or more each month.

- Employees received step increases with their 2016-2017 contracts.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes pertaining to those statements. The statements are organized so the reader can understand the Educational Service Center as a financial whole, or complete operating entity.

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

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

These two statements report the Educational Service Center's net position and changes in that position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are classified as governmental. All of the Educational Service Center's programs and services are reported here including instruction, support services, operation and maintenance and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 10. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

Governmental Funds

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

Proprietary Fund

Internal service funds are an accounting device used to accumulate and allocate costs internally among the Educational Service Center's various functions. The Educational Service Center's internal service fund accounts for dental and vision self insurance. The internal service fund uses the accrual basis of accounting.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Educational Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Educational Service Center's programs. These funds use the accrual basis of accounting.

The Educational Service Center as a Whole

You may recall that the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2017 compared to 2016:

Table 1
Net Position
Governmental Activities

	2017	2016	Change
Assets			
Current and Other Assets	$980,289	$1,121,199	($140,910)
Capital Assets, Net	107,136	144,051	(36,915)
Total Assets	1,087,425	1,265,250	(177,825)
Deferred Outflows of Resources	2,693,522	1,294,723	1,398,799
Liabilities			
Current Liabilities	440,061	580,596	140,535
Long-Term Liabilities:			
Due Within One Year	24,587	44,555	19,968
Due in More Than One Year:			
Net Pension Liability	11,249,480	9,308,648	(1,940,832)
Other Amounts	157,006	135,848	(21,158)
Total Liabilities	11,871,134	10,069,647	(1,801,487)
Deferred Inflows of Resources	541,885	664,769	122,884
Net Position			
Investment in Capital Assets	107,136	144,051	(36,915)
Restricted for:			
Student Activities	8,715	0	8,715
Staff Development	57,052	53,032	4,020
Other Purposes	1,000	12,055	(11,055)
Unrestricted (Deficit)	(8,805,975)	(8,383,581)	(422,394)
Total Net Position	($8,632,072)	($8,174,443)	($457,629)

The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2017 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27." For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows 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.

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

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

GASB notes that pension 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 Educational Service Center 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 Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's *change* in net pension liability not accounted for as deferred inflows/outflows.

Table 2 shows revenues, expenses and changes in net position for fiscal years 2017 and 2016.

Table 2
Changes in Net Position
Governmental Activities

	2017	2016	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	$4,789,530	$5,541,547	($752,017)
Operating Grants and Contributions	234,404	225,098	9,306
Total Program Revenues	5,023,934	5,766,645	(742,711)
General Revenues:			
Grants and Entitlements	248,812	248,155	657
Investment Earnings	1,335	2,086	(751)
Miscellaneous	33,359	1,315	32,044
Total General Revenues	283,506	251,556	31,950
Total Revenues	5,307,440	6,018,201	(710,761)
Program Expenses			
Instruction:			
Regular	76,833	189,854	113,021
Special	3,595,151	3,529,587	(65,564)
Support Services:			
Pupils	809,555	807,970	(1,585)
Instructional Staff	213,941	223,293	9,352
Board of Education	27,877	22,684	(5,193)
Administration	874,228	917,122	42,894
Fiscal	129,662	84,492	(45,170)
Operation and Maintenance of Plant	27,539	23,688	(3,851)
Central	6,098	13,831	7,733
Extracurricular Activities	4,185	3,644	(541)
Total Program Expenses	5,765,069	5,816,165	51,096
Change in Net Position	(457,629)	202,036	(659,665)
Net Position Beginning of Year	(8,174,443)	(8,376,479)	202,036
Net Position End of Year	($8,632,072)	($8,174,443)	($457,629)

Governmental Activities

A review of Table 2 shows the Educational Service Center net position decreased from fiscal year 2016. Revenues decreased due to a decrease in charges for services and sales while expenses decreased slightly from the prior fiscal year. The Educational Service Center continues to scrutinize every purchase.

The statement of activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. That is, it identifies the cost of these services supported by general revenue.

Table 3
Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
Governmental Activities:				
Instruction:				
Regular	$76,833	($76,833)	$189,854	($189,854)
Special	3,595,151	1,357,699	3,529,587	2,162,993
Support Services:				
Pupils	809,555	(766,896)	807,970	(764,403)
Instructional Staff	213,941	(191,306)	223,293	(198,293)
Board of Education	27,877	(27,877)	22,684	(22,684)
Administration	874,228	(874,228)	917,122	(917,122)
Fiscal	129,662	(129,662)	84,492	(84,492)
Operation and Maintenance of Plant	27,539	(27,539)	23,688	(23,688)
Central	6,098	(6,098)	13,831	(13,831)
Extracurricular Activities	4,185	1,605	3,644	1,854
Total	$5,765,069	($741,135)	$5,816,165	($49,520)

The Educational Service Center's Funds

Information regarding the Educational Service Center's governmental funds can be found on pages 16 through 19. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $5,464,674 and expenditures of $5,308,307. The general fund is the most significant and had the largest change in fund balance. This increase was caused primarily by a decrease in special instruction expenditures.

General Fund Budgeting Highlights

There are no requirements for the Educational Service Center identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center's budget is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary process that is followed is for control purposes. The most significant fund to be budgeted is the main operating fund of the Educational Service Center – the general fund.

For the general fund, final budget basis appropriations totaled $7,240,697, which was slightly higher than the original estimate. Actual expenditures were $1,864,436 lower than the final estimate, due to conservative budgeting.

The general fund's unencumbered ending cash balance totaled $668,613, which was slightly less than the beginning unencumbered cash balance of $680,164. This is due to expenditures outpacing revenues during fiscal year 2017.

Capital Assets

Table 4 shows fiscal year 2017 values compared to 2016. More detailed information is presented in Note 8 to the basic financial statements.

Table 4
Capital Assets at June 30
Net of Depreciation
Governmental Activities

	2017	2016	Change
Furniture, Fixtures and Equipment	$107,136	$144,051	($36,915)

All capital assets are reported net of depreciation. As one can see, there was a decrease in capital assets during the fiscal year. Purchases of capital assets were lower than the annual depreciation during fiscal year 2017.

Debt

At June 30, 2017, the Educational Service Center had no outstanding bonded long-term debt. The long-term liabilities listed in Table 1 are those accumulated for compensated absences and net pension liability. For additional information on long-term liabilities, see Note 9 to the basic financial statements.

Current Related Financial Activities

In prior fiscal years, the Educational Service Center faced several cash flow issues related to self-insurance and rising expenditures in the general fund. A fifteen percent increase in insurance premiums was implemented effective July 1, 2011 and employees were responsible for the entire premium increase in fiscal year 2012. The Educational Service Center continued to explore ways of reducing the deficit in fiscal year 2013 and was able to end the year with a positive cash balance in the general fund. The largest savings in fiscal year 2013 was the elimination of the medical and prescription drug insurance coverage that was previously provided through a self-insured program. One of the medical coverage plans provided to employees in fiscal year 2015 was an indemnity plan that provided limited reimbursement for medical expenses. This plan had a much lower cost to the Educational Service Center, as compared to the self-insured program, but provided much less coverage to employees. In June 2017, the Educational Service Center had to terminate the indemnity plan due to low participation. The plan required a minimum number of employees be enrolled in the plan at any time and the Educational Service Center had not met that requirement in any of fiscal year 2016. The Educational Service Center offers a MEC plan, which provides wellness benefits to Educational Service Center employees. The MEC plan offered is 100 percent Board paid and still offers wellness coverage that employees would otherwise have to go to the marketplace for. The cost of this plan remains much less than what the self-insured plan was in the past.

The Educational Service Center Governing Board continues to rely on generating different sources of revenue in addition to the financial resources provided from the State foundation program. With the implementation of the House Bill 115, the Educational Service Center, as of July 1, 2007, no longer serves as the fiscal agent for the North Central Ohio Special Education Regional Resource Center (NCO-SERRC) and the NCO-SERRC is no longer in existence. The services provided by the NCO-SERRC became part of the services provided by the State Support Team Region 7 (SST) as of July 1, 2007. The Educational Service Center still holds some money in an agency fund for NCO-SERRC which will be spent by SST as expenses are incurred.

The Educational Service Center relies heavily on not only contracts with local districts, State foundation revenue, but grants and other revenue it is able to generate. The fact that educational service centers are not fully funded by the State makes it imperative that the Educational Service Center looks for other sources of revenue to sustain the level of quality services it now provides to its stakeholders. The Educational Service Center is also committed to assisting local districts to improve their instructional programs and to develop school improvement strategies. The Educational Service Center has been able to secure grant funding in several areas that provide services and opportunities for students in the school districts served by the Educational Service Center. Additional revenue was generated by providing professional development to the school districts served by the Educational Service Center and providing speech and occupational therapy services to outside organizations. The Educational Service Center also continued charging an administration fee for all services provided to local districts. In fiscal year 2014, this fee was increased from three percent to four percent.

Irrespective of the instability of funding in the State of Ohio and the uncertainty of how educational service centers deliver services on a regional basis, the Educational Service Center is committed to providing the best service possible and to be fiscally responsible in its operation. The challenge that faces the Educational Service Center operation is not in providing quality services, but the uncertainty of how the Educational Service Center will deliver mandated services and what those services should be.

The Educational Service Center has an efficient system of budgetary processes and controls. Internal departmental budgets provide additional administrative accountability in administering the budget.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brittany Keller, Treasurer, at Knox County Educational Service Center, 308 Martinsburg Road, Mount Vernon, Ohio 43050.

Basic Financial Statements

Knox County Educational Service Center

Statement of Net Position

June 30, 2017

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$886,549
Intergovernmental Receivable	93,740
Depreciable Capital Assets, Net	107,136
Total Assets	1,087,425
Deferred Outflows of Resources	
Pension	2,693,522
Liabilities	
Accounts Payable	10,178
Accrued Wages Payable	331,349
Intergovernmental Payable	98,534
Long-Term Liabilities:	
Due Within One Year	24,587
Due In More Than One Year:	
Net Pension Liability (See Note 13)	11,249,480
Other Amounts	157,006
Total Liabilities	11,871,134
Deferred Inflows of Resources	
Pension	541,885
Net Position	
Investment in Capital Assets	107,136
Restricted for:	
Student Activities	8,715
Staff Development	57,052
Other Purposes	1,000
Unrestricted (Deficit)	(8,805,975)
Total Net Position	($8,632,072)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Activities

For the Fiscal Year Ended June 30, 2017

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction:				
Regular	$76,833	$0	$0	($76,833)
Special	3,595,151	4,783,740	169,110	1,357,699
Support Services:				
Pupils	809,555	0	42,659	(766,896)
Instructional Staff	213,941	0	22,635	(191,306)
Board of Education	27,877	0	0	(27,877)
Administration	874,228	0	0	(874,228)
Fiscal	129,662	0	0	(129,662)
Operation and Maintenance of Plant	27,539	0	0	(27,539)
Central	6,098	0	0	(6,098)
Extracurricular Activities	4,185	5,790	0	1,605
Totals	$5,765,069	$4,789,530	$234,404	(741,135)

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	248,812
Investment Earnings	1,335
Miscellaneous	33,359
Total General Revenues	283,506
Change in Net Position	(457,629)
Net Position Beginning of Year	(8,174,443)
Net Position End of Year	($8,632,072)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2017

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	$805,493	$73,821	$879,314
Interfund Receivable	5,860	0	5,860
Intergovernmental Receivable	73,069	20,671	93,740
Total Assets	$884,422	$94,492	$978,914
Liabilities			
Accounts Payable	$10,178	$0	$10,178
Accrued Wages Payable	309,522	21,827	331,349
Interfund Payable	0	5,860	5,860
Intergovernmental Payable	95,100	3,434	98,534
Total Liabilities	414,800	31,121	445,921
Deferred Inflows of Resources			
Unavailable Revenue	0	8,439	8,439
Fund Balances			
Restricted	0	66,798	66,798
Assigned	121,790	0	121,790
Unassigned (Deficit)	347,832	(11,866)	335,966
Total Fund Balances	469,622	54,932	524,554
Total Liabilities, Deferred Inflows and Fund Balances	$884,422	$94,492	$978,914

See accompanying notes to the basic financial statements

Knox County Educational Service Center

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

Total Governmental Funds Balances		$524,554
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		107,136
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable revenue in the funds:		
Intergovernmental		8,439
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 in the statement of net position.		7,235
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 - Pension	2,693,522	
Net Pension Liability	(11,249,480)	
Deferred Inflows - Pension	(541,885)	
Total		(9,097,843)
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds.		(181,593)
Net Position of Governmental Activities		($8,632,072)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	$266,719	$177,572	$444,291
Interest	1,303	0	1,303
Tuition and Fees	270,538	0	270,538
Extracurricular Activities	0	5,790	5,790
Contributions and Donations	0	42,963	42,963
Customer Services	4,666,430	0	4,666,430
Miscellaneous	33,359	0	33,359
Total Revenues	5,238,349	226,325	5,464,674
Expenditures			
Current:			
Instruction:			
Regular	78,999	173	79,172
Special	3,168,672	142,343	3,311,015
Support Services:			
Pupils	707,532	33,800	741,332
Instructional Staff	164,817	23,291	188,108
Board of Education	27,877	0	27,877
Administration	803,840	4,334	808,174
Fiscal	116,235	0	116,235
Operation and Maintenance of Plant	25,619	0	25,619
Central	6,590	0	6,590
Extracurricular Activities	0	4,185	4,185
Total Expenditures	5,100,181	208,126	5,308,307
Net Change in Fund Balances	138,168	18,199	156,367
Fund Balances Beginning of Year	331,454	36,733	368,187
Fund Balances End of Year	$469,622	$54,932	$524,554

See accompanying notes to the basic financial statements

Knox County Educational Service Center

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

Net Change in Fund Balances - Total Governmental Funds		$156,367
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 depreciation expense exceeded capital outlay in the current period:		
Capital Asset Additions	10,832	
Depreciation	(46,090)	
Total		(35,258)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal.		(1,657)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Intergovernmental	(4,038)	
Customer Services	(153,228)	
Total		(157,266)
The internal service fund used by management to charge the cost of health insurance to individual funds is not reported in the entity-wide statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for the governmental funds is reported for the year.		524
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		589,338
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		(1,008,487)
Some expenses, such as compensated absences, reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(1,190)
Change in Net Position of Governmental Activities		($457,629)

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Fund Net Position

Internal Service Fund

June 30, 2017

	Insurance
Assets	
Equity in Pooled Cash and Cash Equivalents	$7,235
Liabilities	0
Net Position	
Unrestricted	$7,235

See accompanying notes to the basic financial statements

Knox County Educational Service Center

Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2017

	Insurance
Operating Revenues	
Charges for Services	$21,988
Operating Expenses	
Purchased Services	4,227
Claims	17,269
Total Operating Expenses	21,496
Operating Loss	492
Non-Operating Revenues	
Interest	32
Change in Net Position	524
Net Position Beginning of Year	6,711
Net Position at End of Year	$7,235

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Cash Flows
Internal Service Fund
For the Fiscal Year Ended June 30, 2017

	Insurance
Decrease in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Interfund Services Provided	$21,988
Cash Payments for Goods and Services	(4,227)
Cash Payments for Claims	(17,269)
Net Cash Used for Operating Activities	492
Cash Flows from Investing Activities	
Interest on Investments	32
Decrease in Cash and Cash Equivalents	524
Cash and Cash Equivalents Beginning of Year	6,711
Cash and Cash Equivalents End of Year	$7,235

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Private Purpose Trust	
	Wolfe Estate	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	$13,084	$87,027
Liabilities		
Undistributed Monies	0	$87,027
Net Position		
Held in Trust for Scholarships	$13,084	

See accompanying notes to the basic financial statements

Knox County Educational Service Center
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2017

	Wolfe Estate
Additions	
Interest	$90
Deductions	0
Change in Net Position	90
Net Position Beginning of Year	12,994
Net Position End of Year	$13,084

See accompanying notes to the basic financial statements

Note 1 – Description of the Educational Service Center and Reporting Entity

On July 18, 1914, the Knox County Educational Service Center ("Educational Service Center") was formed. The Educational Service Center supplies supervisory, administrative, and other needed services to area school districts.

The Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and federal agencies. The Board controls the Educational Service Center's support facilities staffed by 290 full and part time non-certificated and 88 full and part time certificated teaching personnel, and 10 administrators who provide services to 8,108 students and other community members.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Educational Service Center, this includes general operations and related activities of the Educational Service Center.

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

The Educational Service Center participates in two jointly governed organizations and one insurance purchasing pool. These organizations are presented in Notes 10 and 11 to the basic financial statements. These organizations are the Knox County Career Center, META Solutions, and the Ohio School Boards Association Workers' Compensation Group Rating Program.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type. The Educational Service Center, however, has no business-type activities.

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

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

Fund Accounting

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

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

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

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted, committed, or assigned to a particular purpose.

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service; the Educational Service Center has no enterprise funds.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center on a cost reimbursement basis. The Educational Service Center's only internal service fund accounts for self insurance dental and vision claims for Educational Service Center employees.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private-purpose trust fund established to account for funds from an estate with the interest specifically designated to be used for college scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for resources for services provided by the State Support Team Region 7 (SST). The remainder of the money in the agency fund will be spent by SST as expenses are incurred.

Measurement Focus

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

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

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities 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 Educational Service Center finances and meets the cash flow needs of its internal service fund.

The private-purpose trust fund is reported using the economic resources measurement focus.

Basis of Accounting

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

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

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On an accrual basis, 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange 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: grants, interest, tuition, fees and customer services.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 13.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue and pension. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension are reported on the government-wide statement of net position. (See Note 13)

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.

Cash and Cash Equivalents

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

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

For the fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2017 amounted to $1,303, of which $213 was assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

Capital Assets

All capital assets of the Educational Service Center are classified as general capital assets. 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 Educational Service Center maintains a capitalization threshold of $500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

Description	Estimated Lives
Furniture, Fixtures and Equipment	6 - 10 years

Interfund Balances

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

Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. An accrual for earned sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the Educational Service Center's past experience of making termination payments.

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

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

Accrued Liabilities and Long-term Obligations

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

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

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 positon 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.

Fund Balance

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

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

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

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board of Education 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 Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the Educational Service Center Board of Education. In the general fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education delegated that authority by State statute. State statute authorizes the Treasurer to assign fund balance for purchases on order, provided such amounts have been lawfully appropriated.

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 used only to report a deficit balance.

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

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for program enhancements.

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

Estimates

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

Note 3 – Changes in Accounting Principles

For fiscal year 2017, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. GASB Statement No. 77 requires disclosure of information about the nature and magnitude of tax abatements. These changes were incorporated in the Educational Service Center's fiscal year 2017 financial statements; however, there were no abatements.

The Educational Service Center also implemented GASB's *Implementation Guide No. 2016-1.* These changes were incorporated in the Educational Service Center's fiscal year 2017 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 – Deposits and Investments

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

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

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

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

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

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

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal

Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above;

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

5. Time certificates of deposit or savings or deposit accounts including;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);

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

8. Commercial paper and bankers' acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, $596,561 of the Educational Service Center’s bank balance of $846,561 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although the collateral securities were held by the pledging financial institutions’ trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred and five percent of the deposits being secured. Effective July 1, 2017, the Ohio Pooled Collateral System (OPCS) was implemented by the Office of the Ohio Treasurer of State. Financial institutions can elect to participate in the OPCS and will collateralize at one hundred and two percent or a rate set by the Treasurer of State. Financial institutions opting not to participate in OPCS will collateralize utilizing the specific pledge method at one hundred and five percent.

Investments

As of June 30, 2017, the Educational Service Center’s only investment was in STAR Ohio, which is measured at net asset value per share.

Interest Rate Risk The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that investment must be purchased with the expectation that it will be held to maturity.

Credit Risk Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

Note 5 – Fund Balances

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

Fund Balances	General	Other Governmental Funds	Total
Restricted for:			
Staff Development	$0	$58,052	$58,052
Youth Programs	0	31	31
Student Activities	0	8,715	8,715
Total Restricted	0	66,798	66,798
Assigned to:			
Purchases on Order	121,790	0	121,790
Unassigned (Deficit)	347,832	(11,866)	335,966
Total Fund Balances	$469,622	$54,932	$524,554

Note 6 – Receivables

Receivables at June 30, 2017, consisted of intergovernmental grants. All receivables are considered collectible in full and will be received within one year. Intergovernmental receivables in governmental activities are due to customer services.

Note 7 – State Funding

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local and client school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the local and client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of $35 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client schools districts. A reduction factor of 76.65 percent is then applied, due to a State budget reduction. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to $11.00 times the school district's total student count and remits this amount to the Educational Service Center.

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

Note 8 – Capital Assets

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

	Balance 7/1/2016	Additions	Deductions	Balance 6/30/2017
Governmental Activities				
Capital Assets, being Depreciated:				
Furniture, Fixtures, and Equipment	$420,864	$10,832	($35,784)	$395,912
Less Accumulated Depreciation	(276,813)	(46,090) *	34,127	(288,776)
Governmental Activities Capital Assets, Net	$144,051	($35,258)	($1,657)	$107,136

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$3,937
Special	10,169
Support Services:	
Pupils	374
Instructional Staff	21,592
Administration	8,981
Fiscal	1,037
Total Depreciation Expense	$46,090

Note 9 – Long-Term Obligations

Changes in long-term obligations of the Educational Service Center during fiscal year 2017 were as follows:

	Amount Outstanding 7/1/2016	Additions	Deletions	Amount Outstanding 6/30/2017	Amount Due in One Year
Governmental Activities:					
Compensated Absences	$180,403	$45,745	$44,555	$181,593	$24,587
Net Pension Liability:					
STRS	5,595,302	532,178	0	6,127,480	0
SERS	3,713,346	1,408,654	0	5,122,000	0
Total Net Pension Liability	9,308,648	1,940,832	0	11,249,480	0
Total Long-Term Liabilities	$9,489,051	$1,986,577	$44,555	$11,431,073	$24,587

There is no repayment schedule for the net pension liability. However, employer pension contributions are made from the following funds: general fund and public school preschool, alternative center preschool, miscellaneous state grants, and IDEA preschool special revenue funds. Compensated absences will be paid from the general fund and public school preschool, alternative center preschool, miscellaneous state grants, and preschool grant special revenue funds. For additional information related to net pension liability see Note 13.

Note 10 – Jointly Governed Organizations

Knox County Career Center The Knox County Career Center is a joint vocational school. The Knox County Career Center includes six member school districts spread throughout Coshocton, Delaware, Holmes, Knox, Licking, Morrow and Richland counties. It is operated under the direction of a Board consisting of three representatives from Knox County Educational Service Center elected board, three from Mount Vernon City elected board and one from Mid Ohio Educational Service Center elected board, which possesses its own budgeting and taxing authority. Each participant's control is limited to its representation on the board. The Knox County Educational Service Center paid $4,800 for services during fiscal year 2017. To obtain financial information write to the Knox County Career Center, 302 Martinsburg Road, Mt. Vernon, Ohio 43050.

META Solutions META Solutions is jointly governed organization among 128 member districts. META Solutions was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports META Solutions based upon a per pupil charge dependent upon the software package utilized. META Solutions is governed by a board of directors consisting of superintendents of the members’ districts. The degree of control exercised by any participating school district is limited to its representation on the board. The Educational Service Center paid $10,832 for services during fiscal year 2017. Audited yearly financial statements are available at META Solutions, 100 Executive Drive, Marion, Ohio, 43302.

Note 11 – Insurance Purchasing Pool

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

Note 12 – Risk Management

Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2017, the Educational Service Center contracted with the Ohio School Plan for property and general liability insurance.

Professional liability is protected by the Ohio School Plan with a $3,000,000 annual aggregate/$1,000,000 single occurrence limit and no deductible. Settled claims have not exceeded this commercial coverage in any of the past four years. There have been no significant reductions in insurance coverage from last year.

Workers' Compensation

For fiscal year 2017, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to school districts and educational service centers that can meet the GRP's selection criteria. The firm of Gates McDonald & Company provides administrative, cost control and actuarial services to the GRP.

Self-Insurance

Beginning in fiscal year 2009, the Educational Service Center offered medical, surgical and prescription drug claims coverage to all employees through a self-insurance internal service fund. Self-Funded Plans, Incorporated serves as the third party administrator. As of July 1, 2012, the Educational Service Center was no longer self-insured for health insurance but is still self-insured for dental and vision. The self-insurance fund is being utilized for current dental and vision claims. As of June 30, 2017, there is no claims liability in the fund. Changes in the fund's claims liability amount in fiscal year 2016 and 2017 were:

Fiscal Year	Balance Beginning of Year	Current Year Claims	Claim Payments	Balance End of Year
2016	$0	$20,496	$20,496	$0
2017	0	17,269	17,269	0

Note 13 – Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description – State Teachers Retirement System (STRS)

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. 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 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2017, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The statutory member contribution rate was increased one percent to 14 percent on July 1, 2016. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was $269,310 for fiscal year 2017. Of this amount $31,761 is reported as an intergovernmental payable.

Plan Description – School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Educational Service Center's contractually required contribution to SERS was $320,028 for fiscal year 2017. Of this amount $14,628 is reported as an intergovernmental payable.

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

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

	STRS	SERS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.02024564%	0.06507680%	
Proportion of the Net Pension Liability Current Measurement Date	0.01830573%	0.06998150%	
Change in Proportionate Share	-0.00193991%	0.00490470%	
Proportionate Share of the Net Pension Liability	$6,127,480	$5,122,000	$11,249,480
Pension Expense	$444,672	$563,815	$1,008,487

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

	STRS	SERS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$247,579	$69,084	$316,663
Changes of assumptions	0	341,921	341,921
Net difference between projected and actual earnings on pension plan investments	508,746	422,491	931,237
Changes in proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	308,644	205,719	514,363
Educational Service Center contributions subsequent to the measurement date	269,310	320,028	589,338
Total Deferred Outflows of Resources	$1,334,279	$1,359,243	$2,693,522
Deferred Inflows of Resources			
Changes in Proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	$447,072	$94,813	$541,885

$589,338 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	STRS	SERS	Total
Fiscal Year Ending June 30:			
2018	$110,863	$239,690	$350,553
2019	110,862	239,385	350,247
2020	306,081	343,878	649,959
2021	90,091	121,449	211,540
Total	$617,897	$944,402	$1,562,299

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
Salary increases	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.75 percent, net of investment expenses, including inflation
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences 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 no 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.

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return *
Domestic Equity	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 include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	$8,142,924	$6,127,480	$4,427,335

Changes between Measurement Date and Report Date

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

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, compared with June 30, 2015, are presented as follows:

Method	June 30, 2016	June 30, 2015
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal	Entry Age Normal

For 2016, the mortality assumptions are that mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. For 2015, the mortality assumptions were based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

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

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

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

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	$6,781,208	$5,122,000	$3,733,173

Note 14 – Postemployment Benefits

State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For the fiscal years ended June 30, 2017, June 30, 2016 and June 30. 2015, STRS Ohio did not allocate any employer contributions to post-employment health care.

School Employees Retirement System (SERS)

Health Care Plan Description – The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrator and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy – State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2017, this amount was $23,500. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the Educational Service Center's surcharge obligation was $36,570.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $36,570, $34,359, and $49,650, respectively. The full amount has been contributed for fiscal years 2016 and 2015.

Note 15 – Other Employee Benefits

The criteria for determining vacation and sick leave benefits are derived from State laws. Classified employees, administrators and supervisors earn twenty days of vacation per year. Accumulated unused vacation time is paid upon termination of employment. Teachers do not earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 180 days for 180 - day employees and 200 days for 260 - day employees. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 50 days. Any employee receiving such payment must meet the retirement provisions set by STRS or SERS.

Life Insurance is provided through Fort Dearborn Life Insurance Company. The Governing Board pays 100 percent of the premium. Coverage is $40,000 life and an additional $40,000 Accidental Death, Dismemberment, and Loss of Sight.

Dental and vision insurance is provided through OME-RESA (See Note 12). An indemnity plan is available through Nationwide Insurance Company with monthly premiums of $149.82 for single, $345.50 for employee plus spouse, $255.80 for employee plus child, and $371.32 for family coverage.

Note 16 – Contingencies

Grants

The Educational Service Center received financial assistance from federal and State 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 adverse effect on the overall financial position of the Educational Service Center at June 30, 2017.

Foundation Funding

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, ODE has finalized the impact of enrollment adjustments to the June 30, 2017 Foundation funding, with the Educational Service Center having received $305 more. This is not reflected on the financial statements.

Litigation

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

Note 17 – Interfund Balances

The interfund receivable of $5,860 in general fund represents advances to other governmental funds to offset deficit cash at June 30, 2017.

Note 18 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were $142,740 and $743 in the general fund and other governmental funds, respectively.

Note 19 – Accountability

At June 30, 2017, the Educational Service Center had deficit fund balances of $5,692, $4,521, $1,216, and $437 in the public school preschool grant, miscellaneous state grants, preschool grant, and miscellaneous federal grants special revenue funds, respectively. The special revenue funds' deficits resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the funds and provides transfers when cash is required, not when accruals occur.

Required Supplementary Information

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

	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.01830573%	0.02024564%	0.01846323%	0.01846323%
Educational Service Center's Proportionate Share of the Net Pension Liability	$6,127,480	$5,595,302	$4,490,897	$5,349,527
Educational Service Center's Covered Payroll	$1,901,429	$2,176,450	$1,929,836	$2,095,262
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	322.26%	257.08%	232.71%	255.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

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

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

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

	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.06998150%	0.06507680%	0.06822300%	0.06822300%
Educational Service Center's Proportionate Share of the Net Pension Liability .	$5,122,000	$3,713,346	$3,452,728	$4,057,003
Educational Service Center's Covered Payroll	$2,158,079	$1,962,614	$2,005,885	$1,926,145
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	237.34%	189.20%	172.13%	210.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

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

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

Knox County Educational Service Center

Required Supplementary Information

Schedule of Educational Service Center Contributions

State Teachers Retirement System of Ohio

Last Ten Fiscal Years

	2017	2016	2015
Contractually Required Contribution	$269,310	$266,200	$304,703
Contributions in Relation to the Contractually Required Contribution	(269,310)	(266,200)	(304,703)
Contribution Deficiency (Excess)	$0	$0	$0
Educational Service Center Covered Payroll as a Percentage of its Covered-Employee Payroll	$1,923,643	$1,901,429	$2,176,450
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%

2014	2013	2012	2011	2010	2009	2008
$250,879	$272,384	$275,860	$271,119	$291,758	$287,320	$294,358
(250,879)	(272,384)	(275,860)	(271,119)	(291,758)	(287,320)	(294,358)
$0	$0	$0	$0	$0	$0	$0
$1,929,836	$2,095,262	$2,122,000	$2,085,531	$2,244,292	$2,210,154	$2,264,292
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

	2017	2016	2015
Contractually Required Contribution	$320,028	$302,131	$258,673
Contributions in Relation to the Contractually Required Contribution	(320,028)	(302,131)	(258,673)
Contribution Deficiency (Excess)	$0	$0	$0
Educational Service Center Covered Payroll as a Percentage of its Covered-Employee Payroll	$2,285,914	$2,158,079	$1,962,614
Contributions as a Percentage of Covered Payroll	14.00%	14.00%	13.18%

2014	2013	2012	2011	2010	2009	2008
$278,016	$266,578	$246,200	$244,104	$247,998	$184,384	$157,632
(278,016)	(266,578)	(246,200)	(244,104)	(247,998)	(184,384)	(157,632)
$0	$0	$0	$0	$0	$0	$0
$2,005,885	$1,926,145	$1,830,480	$1,941,956	$1,831,596	$1,873,817	$1,605,218
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

Changes in Assumptions – SERS

Amounts reported for fiscal year 2017 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2016 and prior are presented as follows:

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

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

Additional Supplementary Information

Additional Supplementary Information

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

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Intergovernmental			$266,719	
Interest			1,303	
Tuition and Fees			270,538	
Customer Services			4,709,010	
Miscellaneous			4,677	
Total Revenues			5,252,247	
Expenditures				
Current:				
Instruction:				
Regular	132,910	132,912	98,691	34,221
Special	4,499,261	4,499,329	3,340,882	1,158,447
Support Services:				
Pupils	956,604	956,619	710,317	246,302
Instructional Staff	285,784	285,788	212,040	73,748
Board of Education	38,269	38,269	28,416	9,853
Administration	1,124,102	1,124,119	834,691	289,428
Fiscal	156,678	156,681	116,340	40,341
Operation and Maintenance of Plant	37,539	37,539	27,874	9,665
Central	9,440	9,441	7,010	2,431
Total Expenditures	7,240,587	7,240,697	5,376,261	1,864,436
Net Change in Fund Balance	(7,240,587)	(7,240,697)	(124,014)	
Fund Balance Beginning of Year			680,164	
Prior Year Encumbrances Appropriated			112,463	
Fund Balance End of Year			$668,613	

See accompanying notes to the supplemental information

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The budgetary process that is followed by the Educational Service Center is for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. The annual appropriation resolution is enacted by the Board. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Board. During the year, several supplemental appropriations were enacted, which represented the appropriation of available resources. The budget figures, which appear in the schedule of budgetary comparisons, represent the original and final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds.

Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual presented for the general and major special revenue funds 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:

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

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

3. Encumbrances are treated as expenditures (budget) rather than as restricted, committed, or assigned (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements:

Net Change in Fund Balance
General Fund

	General
GAAP Basis	$138,168
Net Adjustment for Revenue Accruals	13,898
Net Adjustment for Expenditure Accruals	(133,340)
Encumbrances	(142,740)
Budget Basis	($124,014)

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OHIO AUDITOR OF STATE
KEITH FABER

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

Knox County Educational Service Center
Knox County
308 Martinsburg Road
Mount Vernon, Ohio 43050

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Knox County Educational Service Center, Knox, (the Educational Service Center) as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated May 7, 2019, wherein we noted the Educational Service Center adopted new accounting guidance in Governmental Accounting Standard (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber
Auditor of State

Columbus, Ohio

May 7, 2019

OHIO AUDITOR OF STATE
KEITH FABER

KNOX COUNTY EDUCATIONAL SERVICE CENTER

KNOX COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 28, 2019