SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO COUNTY

REGULAR AUDIT

For the Fiscal Year Ended June 30, 2018

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS

JLU

OHIO AUDITOR OF STATE
KEITH FABER

Board of Education
South Central Ohio Educational Service Center
522 Glenwood Ave
New Boston, OH 45662

We have reviewed the *Independent Auditor's Report* of the South Central Ohio Educational Service Center, Scioto County, prepared by J.L. Uhrig and Associates, Inc., for the audit period July 1, 2017 through June 30, 2018. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

February 13, 2019

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South Central Ohio Educational Service Center
522 Glenwood Avenue
New Boston, Ohio 45662

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 South Central Ohio Educational Service Center (Educational Service Center), Scioto County as of and for the year ended June 30, 2018, and 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' *Governmental 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 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.

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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 South Central Ohio Educational Service Center, Scioto County as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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 on pages 4-11 and schedules of net pension/OPEB liabilities and pension/OPEB contributions on pages 56-67, 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 inquires of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 assurance.

Supplemental and Other Information

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

The budgetary comparison information on pages 71-73 presents additional analysis and is not a required part of the basic financial statements.

The budgetary comparison information 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 budgetary comparison information to the auditing procedures applied to the basic financial statements. In our opinion, this budgetary comparison 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 a report dated December 20, 2018, 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.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

December 20, 2018

The discussion and analysis of the South Central Ohio Educational Service Center's (the "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 enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

General revenues accounted for $1,050,161 of total revenues. Program specific revenues in the form of charges for services, operating and capital grants, and contributions accounted for $11,595,796 of total revenues of $12,645,957.

The Educational Service Center had $6,518,215 in expenses related to governmental activities; these expenses were offset by $11,595,796 of program specific charges for services, grants, and contributions.

Using the Basic Financial Statements

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

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

Reporting the Educational Service Center as a Whole

One of the most important questions asked about the Educational Service Center is "How did we do financially during fiscal year 2018?" The Statement of Net Position and the Statement of Activities, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps 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, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net position and changes in net position. The 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, the Educational Service Center has only one kind of activity:

- Governmental Activities – All of the Educational Service Center's educational programs and services are reported here including instruction and support services, which include operation and maintenance of plant and pupil transportation.

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 nine. Fund financial statements provide detailed information about the Educational Service Center's major funds. 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.

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

Fiduciary Funds **–** The Educational Service Center's fiduciary funds are agency funds. All of the Educational Service Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. Fiduciary funds use the accrual basis of accounting.

The Educational Service Center as a Whole

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 years 2018 and 2017:

Net Position

	Governmental Activities		
	2018	Restated 2017	Increase/ (Decrease)
Assets:			
Current Assets	$3,043,473	$2,910,830	$132,643
Capital Assets, Net	1,511,461	1,538,576	(27,115)
Total Assets	4,554,934	4,449,406	105,528
Deferred Outflows of Resources:			
Pension	5,571,627	4,629,113	$942,514
OPEB	269,056	35,574	233,482
Total Deferred Outflows of Resources	5,840,683	4,664,687	1,175,996
Liabilities:			
Other Liabilities	1,137,975	875,272	262,703
Long-Term Liabilities:			
Due Within One Year	119,258	137,033	(17,775)
Due In More Than One Year:			
Net Pension Liability	16,500,213	21,907,330	(5,407,117)
Net OPEB Liability	3,867,861	4,603,888	(736,027)
Other Amounts	729,541	640,193	89,348
Total Liabilities	22,354,848	28,163,716	(5,808,868)
Deferred Inflows of Resources:			
Pension	532,392	0	$532,392
OPEB	430,158	0	430,158
Total Deferred Outflows of Resources	962,550	0	962,550
Net Position:			
Net Investment in Capital Assets	1,511,461	1,538,576	(27,115)
Restricted	54,817	15,833	38,984
Unrestricted (Deficit)	(14,488,159)	(20,604,032)	6,115,873
Total Net Position (Deficit)	($12,921,881)	($19,049,623)	$6,127,742

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

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

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

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

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

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

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

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

As a result of implementing GASB 75, the Educational Service Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from a deficit of $14,481,309 to a deficit of $19,049,623.

Net Pension Liability decreased $5,407,117 as a result of changes made during the fiscal year by the STRS retirement system.

Total Liabilities decreased $5,808,868 mostly due to the decrease in the net pension liability.

Net Investment in Capital Assets for governmental activities decreased $27,115. The decrease is primarily due to current year current depreciation exceeding additions. Unrestricted Net Position for governmental activities increased $6,115,873 resulting from the decrease in net pension liability.

Table 2 shows the highlights of the Educational Service Center's revenues and expenses. These two main components are subtracted to yield the change in net assets. This table uses the full accrual method of accounting.

Revenue is further divided into two major components: Program Revenues and General Revenues. Program Revenues are defined as charges for services and sales, operating grants, contributions, and interest. General Revenues include unrestricted grants, such as State foundation support, investment earnings and miscellaneous revenues.

Expenses are shown in programs that are easily identifiable utilizing the current Uniform School Accounting System (USAS) coding structure.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2018 and 2017. Table 2 shows the changes in net position for fiscal years 2018 and 2017.

	Governmental Activities		Increase/
	2018	2017	(Decrease)
Revenues:			
Program Revenues:			
Charges for Services	$11,232,499	$10,821,729	$410,770
Operating Grants, Contributions, and Interest	363,297	497,769	(134,472)
Total Program Revenues	11,595,796	11,319,498	276,298
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs	1,012,145	1,123,662	(111,517)
Investment Earnings	2,669	2,247	422
Miscellaneous	35,347	10,007	25,340
Total General Revenues	1,050,161	1,135,916	(85,755)
Total Revenues	12,645,957	12,455,414	190,543
Program Expenses:			
Instruction:			
Regular	251,967	426,873	(174,906)
Special	3,744,694	6,605,554	(2,860,860)
Adult/Continuing	50,340	158,975	(108,635)
Support Services:			
Pupils	960,678	2,800,468	(1,839,790)
Instructional Staff	330,125	1,343,378	(1,013,253)
Board of Education	23,917	28,252	(4,335)
Administration	381,335	876,469	(495,134)
Fiscal	302,980	369,076	(66,096)
Operation and Maintenance of Plant	253,710	199,582	54,128
Pupil Transportation	0	3,200	(3,200)
Central	218,469	156,757	61,712
Total Expenses	6,518,215	12,968,584	(6,450,369)
Increase in Net Position	6,127,742	(513,170)	$6,640,912
Net Position (Deficit) at Beginning of Year - Restated (See Note 3)	(19,049,623)	N/A	
Net Position (Deficit) at End of Year	($12,921,881)	($19,049,623)	

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 $35,574 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 $492,888. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$6,518,215
Negative OPEB expense under GASB 75	492,888
2018 contractually required contribution	46,463
Adjusted 2018 program expenses	7,057,566
Total 2017 program expenses under GASB 45	12,968,584
Decrease in program expenses not related to OPEB	($5,911,018)

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 11) As a result of these changes, pension expense decreased from $1,986,041 in fiscal year 2017 to a negative pension expense of $4,654,262 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

Program Expenses:	2018 Program Expenses Related to Negative Pension Expense
Instruction:	
Regular	($194,896)
Special	(2,347,313)
Adult/Continuing	(60,747)
Support Services:	
Pupils	(1,361,251)
Instructional Staff	(323,762)
Board of Education	47
Administration	(368,139)
Fiscal	1,491
Operation and Maintenance of Plant	308
Total Expenses	($4,654,262)

Governmental Activities

Total program revenues increased $276,298 from the prior fiscal year. This increase was a result of the Educational Service Center receiving more in charges for tuition and fees compared to the prior year due to continuing to offer more services to their clients.

General revenues represent $1,050,061 of the Educational Service Center's total revenues, and of this amount, $1,012,145 consists of grants and entitlements not restricted to specific programs.

The major program expense for governmental activities is instruction, which accounts for $4,047,001 of all governmental expenses of $6,518,215. Other programs which support the instruction process, including pupils and instructional staff account for $1,290,803 of governmental expenses. Most expenses decreased as a result of the decrease in the net pension liability which resulted from changes made during the fiscal year by the STRS retirement system.

The Educational Service Center's Funds

The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $12,600,573 and expenditures of $12,776,117.

Capital Assets

At the end of fiscal year 2018, the Educational Service Center had $1,511,461 invested in capital assets (net of accumulated depreciation), a decrease of $27,115. Additions to capital assets included miscellaneous equipment. For further information regarding the Educational Service Center's capital assets, refer to Note 9 to the basic financial statements.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 information, contact Andrew T. Riehl, Treasurer, South Central Ohio Educational Service Center, 522 Glenwood Avenue, New Boston, Ohio 45662, or by calling 740-354-0234.

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

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	$2,703,089
Accounts Receivable	1,775
Accrued Interest Receivable	1,871
Intergovernmental Receivable	325,828
Prepaid Items	10,810
Capital Assets:	
Land	81,460
Depreciable Capital Assets, Net	1,430,001
Total Assets	4,554,834
Deferred Outflows of Resources:	
Pension	5,571,627
OPEB	269,056
Total Deferred Outflows of Resources	5,840,683
Liabilities:	
Accounts Payable	5,776
Accrued Wages and Benefits Payable	956,910
Intergovernmental Payable	156,925
Matured Compensated Absences Payable	18,364
Long-Term Liabilities:	
Due Within One Year	119,258
Due in More Than One Year:	
Net Pension Liability (See Note 11)	16,500,213
Net OPEB Liability (See Note 12)	3,867,861
Other Amounts	729,541
Total Liabilities	22,354,848
Deferred Inflows of Resources:	
Pension	532,392
OPEB	430,158
Total Deferred Inflows of Resources	962,550
Net Position:	
Net Investment in Capital Assets	1,511,461
Restricted for:	
State and Federal Grants	54,817
Unrestricted (Deficit)	(14,488,159)
Total Net Position (Deficit)	($12,921,881)

See accompanying notes to the basic financial statements

South Central Ohio 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	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$251,967	$0	$42,782	($209,185)
Special	3,744,694	6,906,988	37,893	3,200,187
Adult/Continuing	50,340	672	138,069	88,401
Support Services:				
Pupils	960,678	2,757,609	292	1,797,223
Instructional Staff	330,125	724,361	98,424	492,660
Board of Education	23,917	0	0	(23,917)
Administration	381,335	842,869	36,337	497,871
Fiscal	302,980	0	0	(302,980)
Operation and Maintenance of Plant	253,710	0	7,700	(246,010)
Central	218,469	0	1,800	(216,669)
Total Governmental Activities	$6,518,215	$11,232,499	$363,297	5,077,581

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	1,012,145
Investment Earnings	2,669
Miscellaneous	35,347
Total General Revenues	1,050,161
Change in Net Position	6,127,742
Net Position (Deficit) at Beginning of Year - Restated (See Note 3)	(19,049,623)
Net Position (Deficit) at End of Year	($12,921,881)

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	$2,685,917	$17,172	$2,703,089
Receivables:			
Accounts	1,775	0	1,775
Intergovernmental	199,531	126,297	325,828
Accrued Interest	1,871	0	1,871
Interfund	50,277	0	50,277
Prepaid Items	10,595	215	10,810
Total Assets	$2,949,966	$143,684	$3,093,650
Liabilities:			
Accounts Payable	$4,648	$1,128	$5,776
Accrued Wages and Benefits Payable	935,114	21,796	956,910
Intergovernmental Payable	152,954	3,971	156,925
Interfund Payable	0	50,277	50,277
Matured Compensated Absences Payable	18,364	0	18,364
Total Liabilities	1,111,080	77,172	1,188,252
Deferred Inflows of Resources:			
Unavailable Revenue	727	47,713	48,440
Fund Balances:			
Nonspendable	10,595	215	10,810
Restricted	0	32,100	32,100
Assigned	104,836	0	104,836
Unassigned (Deficit)	1,722,728	(13,516)	1,709,212
Total Fund Balances	1,838,159	18,799	1,856,958
Total Liabilities and Fund Balances	$2,949,966	$143,684	$3,093,650

See accompanying notes to the basic financial statements

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

Total Governmental Fund Balances		$1,856,958
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. These assets consist of:		
Land	81,460	
Capital assets	2,580,731	
Accumulated depreciation	(1,150,730)	
Total Capital Assets		1,511,461
Some of the Educational Service Center's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		
Interest	727	
Intergovernmental	47,713	48,440
The net pension liability 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	5,571,627	
Deferred Outflows - OPEB	269,056	
Net Pension Liability	(16,500,213)	
Net OPEB Liability	(3,867,861)	
Deferred Inflows - Pension	(532,392)	
Deferred Inflows - OPEB	(430,158)	
Total		(15,489,941)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Compensated absences		(848,799)
Total liabilities		
Net Position of Governmental Activities		($12,921,881)

See accompanying notes to the basic financial statements

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

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
Intergovernmental	$1,012,145	$283,533	$1,295,678
Investment Earnings	2,494	0	2,494
Tuition and Fees	9,073,153	18,000	9,091,153
Customer Sales and Service	2,141,346	0	2,141,346
Contributions and Donations	34,555	0	34,555
Miscellaneous	34,874	473	35,347
Total Revenues	12,298,567	302,006	12,600,573
Expenditures:			
Current:			
Instruction:			
Regular	471,373	24,043	495,416
Special	6,833,545	27,228	6,860,773
Adult/Continuing	1,742	133,156	134,898
Support Services:			
Pupils	2,764,466	169	2,764,635
Instructional Staff	744,024	69,571	813,595
Board of Education	24,870	0	24,870
Administration	830,295	31,884	862,179
Fiscal	329,461	0	329,461
Operation and Maintenance of Plant	255,018	7,000	262,018
Central	226,472	1,800	228,272
Total Expenditures	12,481,266	294,851	12,776,117
Net Change in Fund Balances	(182,699)	7,155	(175,544)
Fund Balances at Beginning of Year	2,020,858	11,644	2,032,502
Fund Balances at End of Year	$1,838,159	$18,799	$1,856,958

See accompanying notes to the basic financial statements

South Central Ohio 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		($175,544)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this is the amount by which depreciation exceeded capital outlay:		
Capital Asset Additions	28,435	
Current Year Depreciation	(55,550)	
Excess of capital outlay over depreciation expense		(27,115)
Because some revenues will not collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are therefore recorded as deferred inflows of resources in the governmental funds. Deferred inflows of resources changed by these amounts this year:		
Intergovernmental	45,209	
Interest	175	
Total		45,384
Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.		
Pension	1,162,977	
OPEB	46,463	
Total		1,209,440
Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liabilities are reported as pension expense in the Statement of Activities.		
Pension	4,654,262	
OPEB	492,888	
Total		5,147,150
Some items 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. These activities consist of:		
Increase in compensated absences payable		(71,573)
Change in Net Position of Governmental Activities		$6,127,742

See accompanying notes to the basic financial statements

South Central Ohio Educational Service Center

Statement of Fiduciary Net Position

Fiduciary Funds

June 30, 2018

	Agency Funds
Assets:	
Equity in Pooled Cash and Cash Equivalents	$5,727
Liabilities:	
Undistributed Monies	$5,727

See accompanying notes to the basic financial statements

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

The South Central Ohio Educational Service Center (the "Educational Service Center"), is located in Portsmouth, Ohio, the county seat of Scioto County. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Oak Hill, Bloom-Vernon, Clay, Green, Minford, New Boston, Northwest, Valley, Washington-Nile, Wheelersburg, Portsmouth City School District, and Manchester Local School Districts, as well as the Scioto County Career Technical Center. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board form of government consisting of seven members elected at-large for staggered four year terms. The Educational Service Center has 65 classified, 124 certified, and two administrative personnel that provide services to the local, city, and joint vocational school districts.

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 South Central Ohio Educational Service Center, this includes general operations and student developmental activities.

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 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 five organizations, three of which are defined as jointly governed organizations, one as a public entity shared risk pool, and one as a related organization. Information about these organizations is presented in Note 15 to the basic financial statements. These organizations are:

Jointly Governed Organizations:
- Metropolitan Educational Technology Association (META)
- Family and Children First Council of Scioto County
- Coalition of Rural and Appalachian Schools

Public Entity Shared Risk Pool:
- Optimal Health Initiatives Consortium

Related Organization:
- Scioto County Career Technical Center

The Educational Service Center serves as fiscal agent for the Family and Children First Council of Scioto County. The Family and Children First Council provides services to disadvantaged school age children. This organization is presented as an agency fund within the Educational Service Center's financial statements.

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 Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities that are governmental and those that are considered business-type activities. The Educational Service Center, however, has no activities which are reported as business-type.

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 are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the 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 fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. 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 fall within two categories: governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center 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 liabilities and deferred inflows 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 for all financial resources except those required to be accounted for 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 nonmajor governmental funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the 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. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for various resources held for other organizations and individuals.

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 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 (e.g., revenues) and decreases (e.g., 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 deferred outflows of resources and current liabilities and deferred inflows of resources generally are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows/outflows 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. "Measurable" means that the amount of the transaction can be determined, and "available" means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the 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: tuition and fees, customer sales, grants and interest.

Deferred Outflows/Inflows of Resources:

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the 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 11 and 12.

In addition to liabilities, the Statements of Net Position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue and pension and OPEB plans. Deferred inflows of resources related to pension and OPEB plans are reported on the government wide Statement of Net Position (See Notes 11 and 12) 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 interest and 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 Balance to Net Position of Governmental Activities found on page 15.

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 the governmental funds.

Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center's records. 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's investments were limited to a money market mutual fund and negotiable certificates of deposit. Investments are reported at fair value which is based on quoted market prices. For investments in open-end mutual funds, the fair value is determined by the fund's current share price.

Following Ohio statutes, the Educational Service Center 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 $2,494, which includes $16 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

The Educational Service Center's only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of $1,000. 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 capitalized.

All reported capital assets, except land, are depreciated. Depreciation of the buildings is computed using the straight-line method over fifty years. Building improvements and furniture, fixtures and equipment are computed using the straight-line method over five to 20 years.

Compensated Absences

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditures to the extent that payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

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

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 in the current fiscal year. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension 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.

Interfund Balances

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the fiscal year in which services are consumed.

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's Board. Those committed amounts cannot be used for any other purpose unless the Educational Service Center's Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned

Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent amounts assigned by the Treasurer for the encumbered amounts for outstanding obligations. The Treasurer has been given authority to assign amounts for the purposes by the Educational Service Center's Board.

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 resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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 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 its use either through enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include State grants restricted to expenditures for specified purposes.

The Educational Service Center applies restricted resources 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 – CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF NET POSITION

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

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 effect of this implementation on net position as reported at June 30, 2017 is presented in the following table:

Net Position June 30, 2017	($14,481,309)
Adjustments:	
Net OPEB Liability	(4,603,888)
Deferred Outflow - Payments Subsequent to Measurement Date	35,574
Restated Net Position June 30, 2017	($19,049,623)

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 - FUND BALANCES

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

Fund Balances	General Fund	Nonmajor Governmental Funds	Total
Nonspendable			
Prepaids	$10,595	$215	$10,810
Restricted for			
Alternative School	0	17,172	17,172
Adult Basic Literacy Education	0	13,679	13,679
Preschool	0	1,249	1,249
Total Restricted	0	32,100	32,100
Assigned to			
Purchases on Order	104,836	0	104,836
Unassigned (Deficit)	1,722,728	(13,516)	1,709,212
Total Fund Balances	$1,838,159	$18,799	$1,856,958

NOTE 5 - ACCOUNTABILITY

At June 30, 2018, the State Miscellaneous Grants Special Revenue Fund had a deficit fund balance of $13,516. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 6 - 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 of Education 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 five years 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 (STAROhio); and

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 in 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 had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value - Level One Inputs:				
Money Market Mutual Fund	$59,325	Less than one year	AAAm	8.97%
Fair Value - Level Two Inputs:				
Negotiable Certificates of Deposit	602,318	Less than four years	N/A	91.03%
Total Investments	$661,643			

The Educational Service Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Educational Service Center's recurring fair value measurements as of June 30, 2018. The Money Market Mutual Fund is measured at fair value. The Educational Service Center's remaining investments measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that, to the extent possible, investments will match anticipated cash flow requirements. No investment shall be made unless the Treasurer, at the time of making the investment, reasonably expects it can be held to its maturity. Unless matched to a specific obligation or debt of the Educational Service Center, the Educational Service Center will not directly invest in securities maturing more than five years from the date of investment.

Credit Risk

The Educational Service Center's investment policy limits investments to those authorized by State statute which restricts investments to those that are highly rated or issued by United States Government sponsored enterprises.

Concentration of Credit Risk

The Educational Service Center places no limit on the amount it may invest in any one issuer.

NOTE 7 - STATE AND LOCAL EDUCATIONAL SERVICE CENTER FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city and local 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 city and local school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of client school districts agree to the services and the apportionment of the costs to all of the client school districts.

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

NOTE 8 - RECEIVABLES

Receivables at June 30, 2018, consisted of accounts, intergovernmental grants, accrued interest and interfund amounts. All receivables are considered collectible in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds. All receivable amounts are expected to be received within one year.

A summary of the principal items of intergovernmental receivables follows:

	Amounts
Governmental Activities:	
Charges to Local School Districts and Other Governmental Entities	$188,245
Adult Basic Literacy Education Grant	68,764
Secondary Transitions Grant	43,642
Value Added Grant	500
Early Childhood Special Education, IDEA Grant	13,391
Bureau of Worker's Compensation Reimbursement	8,565
Foundation Adjustment	2,721
Total Intergovernmental Receivable	$325,828

NOTE 9 - CAPITAL ASSETS

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

	Balance at 6/30/17	Additions	Deductions	Balance at 6/30/18
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$81,460	$0	$0	$81,460
Capital Assets Being Depreciated:				
Buildings and Improvements	1,491,592	0	0	1,491,592
Furniture, Fixtures and Equipment	1,060,704	28,435	0	1,089,139
Total Capital Assets Being Depreciated	2,552,296	28,435	0	2,580,731
Less Accumulated Depreciation:				
Buildings and Improvements	(119,740)	(35,617)	0	(155,357)
Furniture, Fixtures and Equipment	(975,440)	(19,933)	0	(995,373)
Total Accumulated Depreciation	(1,095,180)	(55,550) *	0	(1,150,730)
Total Capital Assets Being Depreciated, Net	1,457,116	(27,115)	0	1,430,001
Governmental Activities Capital Assets, Net	$1,538,576	($27,115)	$0	$1,511,461

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$2,004
Special	24,244
Adult/Continuing	2,252
Support Services:	
Pupils	9,259
Instructional Staff	5,488
Administration	1,425
Fiscal	1,241
Operation and Maintenance of Plant	938
Central	8,699
Total Depreciation Expense	$55,550

NOTE 10 - 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 School Insurance Consultants, LLC (SIC) for insurance consulting services. The premium paid to SIC for fiscal year 2018 was $2,500. The Educational Service Center also pays to the awarded insurance agency an insurance premium that is based on types of coverage, limits of coverage, and deductibles that it selects. For the fiscal year, the Educational Service Center contracted with Argonaut Insurance Company for liability, property, and automobile liability insurance coverage and paid its premium to Governmental Underwriters of America, Inc., an agent for Argonaut Insurance Company.

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

Workers' Compensation

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

Health Care Benefits

The Educational Service Center participates in the Optimal Health Initiatives Consortium (the "Consortium"), a public entity shared risk pool (Note 15), consisting of school districts whose insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. Monthly premiums are paid to the fiscal agent who in turn pays the claims on the Educational Service Center's behalf.

NOTE 11 – DEFINED BENEFIT PENSION PLANS

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

Net Pension/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 healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OBEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 12 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Educational Service Center's contractually required contribution to SERS was $317,934 for fiscal year 2018. Of this amount, $35,239 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 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 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 that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 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 $845,043 for fiscal year 2018. Of this amount, $96,039 is reported as an intergovernmental payable.

<u>Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

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

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.06479070%	0.05128086%	
Proportion of the Net Pension Liability Current Measurement Date	0.06688510%	0.05263676%	
Change in Proportionate Share	0.00209440%	0.00135590%	
Proportionate Share of the Net Pension Liability	$3,996,237	$12,503,976	$16,500,213
Pension Expense	$11,238	($4,665,500)	($4,654,262)

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

	SERS	STRS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$171,984	$482,845	$654,829
Changes of assumptions	206,648	2,734,757	2,941,405
Changes in proportionate share and difference between Educational Service Center's contributions and proportionate share of contributions	307,425	504,991	812,416
Educational Service Center's contributions subsequent to the measurement date	317,934	845,043	1,162,977
Total Deferred Outflows of Resources	$1,003,991	$4,567,636	$5,571,627
Deferred Inflows of Resources:			
Differences between expected and actual experience	$0	$100,777	$100,777
Net difference between projected and actual earnings on pension plan investments	18,969	412,646	431,615
Total Deferred Outflows of Resources	$18,969	$513,423	$532,392

$1,162,977 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$326,601	$725,295	$1,051,896
2020	346,780	1,286,635	1,633,415
2021	86,867	901,996	988,863
2022	(93,160)	295,244	202,084
Total	$667,088	$3,209,170	$3,876,258

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	$5,545,738	$3,996,237	$2,698,213

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's share share of the net pension liability	$17,924,023	$12,503,976	$7,938,397

NOTE 12 – DEFINED BENEFIT OPEB PLANS

See Note 11 for a description of the net OPEB liability.

School Employees Retirement System

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Educational Service Center's surcharge obligation was $34,688.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was $46,463 for fiscal year 2018. Of this amount, $35,993 is reported as an intergovernmental payable.

State Teachers Retirement System of Ohio

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

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

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.06530290%	0.05128086%	
Proportion of the Net OPEB Liability Current Measurement Date	0.06759860%	0.05263676%	
Change in Proportionate Share	0.00229570%	0.00135590%	
Proportionate Share of the Net OPEB Liability	$1,814,169	$2,053,692	$3,867,861
OPEB Expense	$123,429	($616,317)	($492,888)

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

	SERS	STRS	Total
Deferred Outflows of Resources:			
Differences between expected and actual experience	$0	$118,552	$118,552
Changes in proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	41,886	62,155	104,041
Educational Service Center contributions subsequent to the measurement date	46,463	0	46,463
Total Deferred Outflows of Resources	$88,349	$180,707	$269,056
Deferred Inflows of Resources:			
Changes of assumptions	$172,155	$165,432	$337,587
Net difference between projected and actual earnings on OPEB plan investments	4,791	87,780	92,571
Total Deferred Inflows of Resources	$176,946	$253,212	$430,158

$46,463 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	($48,397)	($19,399)	($67,796)
2020	(48,397)	(19,399)	(67,796)
2021	(37,069)	(19,399)	(56,468)
2022	(1,197)	(19,400)	(20,597)
2023	0	2,546	2,546
Thereafter	0	2,546	2,546
Total	($135,060)	($72,505)	($207,565)

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as pension plan, see Note 11.

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's proportionate share of the net OPEB liability	$2,190,840	$1,814,169	$1,515,749

	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	$1,472,062	$1,814,169	$2,266,953

Actuarial Assumptions – STRS

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

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

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

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 11.

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Educational Service Center's proportionate share of the net OPEB liability	$2,757,049	$2,053,692	$1,497,811

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's proportionate share of the net OPEB liability	$1,426,817	$2,053,692	$2,878,733

NOTE 13 - EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Support staff earn 5 to 20 days of vacation per fiscal year, depending upon length of service. A maximum of 40 days can be accrued. Accumulated, unused vacation time is paid to classified staff upon termination of employment. Teachers do not earn vacation time.

Teachers and support staff earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 220 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 55 days for all employees.

Insurance Benefits

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through American United Life Insurance Company.

Deferred Compensation

Educational Service Center employees may participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Business Officials Deferred Compensation Plan. Both plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 14 - LONG-TERM OBLIGATIONS

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

	Restated Amount Outstanding 6/30/17	Additions	Deductions	Amount Outstanding 6/30/18	Amounts Due Within One Year
Governmental Activities:					
Net Pension Liability:					
STRS	$17,165,250	$0	$4,661,274	$12,503,976	$0
SERS	4,742,080	0	745,843	3,996,237	0
Total Net Pension Liability	21,907,330	0	5,407,117	16,500,213	0
Net OPEB Liability:					
STRS	2,742,514	0	688,822	2,053,692	0
SERS	1,861,374	0	47,205	1,814,169	0
Total Net OPEB Liability	4,603,888	0	736,027	3,867,861	0
Compensated Absences	777,226	194,162	122,589	848,799	119,258
Total Governmental Activities Long-Term Obligations	$27,288,444	$194,162	$6,265,733	$21,216,873	$119,258

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the General Fund, the Adult Basic Literacy Education, and State Miscellaneous Grant Special Revenue Funds. There is no repayment schedule for the net pension/OPEB liability. However, employer pension/OPEB contributions are made from the following funds: General Fund, the Adult Basic Literacy Education, and State Miscellaneous Grant Special Revenue Funds. For additional information related to the net pension/OPEB liability, see Notes 11 and 12.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS, PUBLIC ENTITY SHARED RISK POOL, AND RELATED ORGANIZATION

Jointly Governed Organizations

Metropolitan Educational Technology Association (META)

The Educational Service Center is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium and a regional council of governments. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice president and twelve board members who represent the members of META. The Board works with META's Chief Executive Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The Educational Service Center paid META $28,089 for services provided during the fiscal year. Financial information can be obtained from META Solutions, David Varda, CFO, 100 Executive Drive, Marion Ohio 43302.

Family and Children First Council of Scioto County

The Family and Children First Council of Scioto County (the "Council") is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: the director of the Alcohol, Drug Addiction and Mental Health Services Board of Adams, Lawrence, and Scioto Counties; the director of the Scioto County Health Department; the director of the City of Portsmouth Health Department; the director of the Scioto County Department of Human Services; the executive director of the Scioto County Children Services; the superintendent of the Scioto County Board of Developmental Disabilities; the Scioto County juvenile court judge; the superintendent of the city, exempted village, or local Educational Service Centers with the largest number of pupils residing in the County; a school superintendent representing all other Educational Service Centers in the County; a representative of the City of Portsmouth; the chair of the Scioto County commissioners; a representative of the regional office of the department of youth services; a representative of the Scioto County Head Start Program; a representative of the County's Early Intervention Collaborative established pursuant to the program; a representative of the federal early intervention program operated under the "Education of the Handicapped Act Amendments of 1988" and at least three individuals representing the interest of families in the County. The Council provides services to disadvantage school age children. The Educational Service Center made no contributions to the Council during fiscal year 2018. Continued existence of the Council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. The Council exercises total control over the operations including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Council. To obtain financial information, write to the fiscal agent, South Central Ohio Educational Service Center at 522 Glenwood Avenue, New Boston, Ohio 45662.

Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools (the "Coalition") is a jointly governed organization of over 100 school districts in southeastern Ohio. The Coalition is operated by a Board which is composed of 14 members. The Board members are composed of one superintendent from each county elected by the school districts within that county. The Coalition provides various services for Educational Service Center administrative personnel; gathers data regarding education conditions in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Coalition is not dependent upon the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or a financial responsibility for the Coalition. The Board exercises total control over the operations of the Coalition including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The Educational Service Center paid $325 to the Coalition for services provided during the fiscal year.

Public Entity Shared Risk Pool

Optimal Health Initiatives Consortium

The Educational Service Center is a member of the Optimal Health Initiatives Consortium (the "Consortium"), a public entity shared risk pool, consisting of school districts whose self-insurance programs for health care benefits were administered previously under the Scioto County Schools Council of Governments, the Northern Buckeye Education Council, and the Butler Health Plan. The overall objective of the Consortium is to enable its members to purchase employee benefits and related products and services using the Consortium's economies of scale to create cost-savings. The Council's business and affairs are managed by an Executive Board of Trustees, consisting of the chairperson of each division's board of trustees and the chairperson of the Butler Health Plan. The participants pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the fiscal agent, Charles Leboeuf CPA, MCM CPAs & Advisors, 3536 Edwards Road, Cincinnati, Ohio 45208.

Related Organization

Scioto County Career Technical Center

The Scioto County Career Technical Center is a distinct political subdivision of the State of Ohio operated under the direction of a five member Board of Education. Two representatives are appointed by the Portsmouth City Educational School District and three representatives are appointed by the South Central Ohio Educational Service Center. The Scioto County Career Technical Center exposes students to job training, leading to employment upon graduation from high school. There is no financial benefit/burden relationship between the Scioto County Career Technical Center and the South Central Ohio Educational Service Center, nor can the South Central Ohio Educational Service Center impose their will on the Scioto County Career Technical Center.

NOTE 16 - INTERFUND ACTIVITY

As of June 30, 2018, interfund receivables and payables resulted from various interfund transactions totaling $50,277 from the General Fund to Nonmajor Governmental Funds.

General Fund advances are made to move unrestricted balances to support programs and projects accounted for in other funds. Advancing monies to other funds is necessary due to timing differences in the receiving of grant monies. When the monies are finally received, the grant fund will use these restricted monies to reimburse the General Fund for the initial advance.

NOTE 17 - CONTINGENCIES

Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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.

School Foundation

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, additional ODE adjustments for the fiscal year 2018 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2018 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of, the Educational Service Center.

Litigation

The Educational Service Center is not party to any legal proceedings as of June 30, 2018.

NOTE 18 – SIGNIFICANT COMMITMENTS

Encumbrances

Encumbrances are commitments related to the unperformed contracts for goods for 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 as follows:

General Fund	$119,418
Nonmajor Governmental Funds	19,130
Total	$138,548

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

	2018	2017	2016
Educational Service Center's Proportion of the Net Pension Liability	0.06688510%	0.06479070%	0.05866760%
Educational Service Center's Proportionate Share of the Net Pension Liability	$3,996,237	$4,742,080	$3,347,631
Educational Service Center's Covered Payroll	$2,183,807	$1,998,793	$1,815,207
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	182.99%	237.25%	184.42%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Information prior to 2014 is not available.

*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

2015	2014
0.05581100%	0.05581100%
$2,824,563	$3,318,901
$1,671,802	$1,493,893
168.95%	222.16%
71.70%	65.52%

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South Central Ohio Educational Service Center

Required Supplementary Information

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

School Employees Retirement System of Ohio

Last Two Fiscal Years (1)

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.06759860%	0.06530290%
Educational Service Centers's Proportionate Share of the Net OPEB Liability	$1,814,169	$1,861,374
Educational Sevice Center's Covered Payroll	$2,183,807	$1,998,793
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	83.07%	93.12%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

*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

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

	2018	2017	2016
Educational Service Center's Proportion of the Net Pension Liability	0.05263676%	0.05128086%	0.05074331%
Educational Service Center's Proportionate Share of the Net Pension Liability	$12,503,976	$17,165,250	$14,023,966
Educational Service Center's Covered Payroll	$5,733,771	$5,349,371	$5,341,821
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	218.08%	320.88%	262.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

(1) Information prior to 2014 is not available.

*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

2015	2014
0.04969142%	0.04969142%
$12,086,673	$14,397,566
$5,080,377	$5,024,046
237.91%	286.57%
74.70%	69.30%

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South Central Ohio Educational Service Center

Required Supplementary Information

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

School Teachers Retirement System of Ohio

Last Two Fiscal Years (1)

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.05263676%	0.05128086%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$2,053,692	$2,742,514
Educational Service Center's Covered Payroll	$5,733,771	$5,349,371
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	35.82%	51.27%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

*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

South Central Ohio 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	$317,934	$305,733	$278,831	$239,244
Contributions in Relation to the Contractually Required Contribution	(317,934)	(305,733)	(278,831)	(239,244)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll (1)	$2,355,067	$2,183,807	$1,998,793	$1,815,207
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	13.95%	13.18%
Net OPEB Liability				
Contractually Required Contribution (2)	46,463	35,574	31,519	45,305
Contributions in Relation to the Contractually Required Contribution	(46,463)	(35,574)	(31,519)	(45,305)
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	1.97%	1.63%	1.58%	2.50%
Total Contributions as a Percentage of Covered Payroll (2)	15.47%	15.63%	15.53%	15.68%

(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
$231,712	$206,755	$202,403	$193,157	$209,192	$131,042
(231,712)	(206,755)	(202,403)	(193,157)	(209,192)	(131,042)
$0	$0	$0	$0	$0	$0
$1,671,802	$1,493,893	$1,504,858	$1,536,647	$1,544,992	$1,331,727
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
30,034	27,998	30,062	44,251	29,386	75,158
(30,034)	(27,998)	(30,062)	(44,251)	(29,386)	(75,158)
$0	$0	$0	$0	$0	$0
1.80%	1.87%	2.00%	2.88%	1.90%	5.64%
15.66%	15.71%	15.45%	15.45%	15.44%	15.48%

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$845,043	$802,728	$748,912	$747,855
Contributions in Relation to the Contractually Required Contribution	(845,043)	(802,728)	(748,912)	(747,855)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll	$6,036,021	$5,733,771	$5,349,371	$5,341,821
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%

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
$660,449	$653,126	$599,943	$565,725	$546,021	$543,827
(660,449)	(653,126)	(599,943)	(565,725)	(546,021)	(543,827)
$0	$0	$0	$0	$0	$0
$5,080,377	$5,024,046	$4,614,946	$4,351,731	$4,200,162	$4,183,285
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$50,804	$50,240	$46,149	$43,517	$42,002	$41,833
(50,804)	(50,240)	(46,149)	(43,517)	(42,002)	(41,833)
$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%

Net Pension Liability

Changes in Assumptions - SERS

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

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

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

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

Changes in Assumptions - STRS

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

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

For fiscal year 2018 post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 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.

Net OPEB Liability

Changes in Assumptions – SERS

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

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

Changes in Assumptions – STRS

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

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

South Central Ohio Educational Service Center
Schedule of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual (Budget Basis)
General Fund
For the Fiscal Year Ended June 30, 2018

	Budget Amounts			Variance With
	Original	Final	Actual	Final Budget Over/(Under)
Revenues:				
Intergovernmental	$1,100,000	$1,009,424	$1,009,424	$0
Investment Earnings	9,500	11,611	11,611	0
Tuition and Fees	8,813,797	9,010,136	9,010,136	0
Customer Sales and Service	2,295,153	2,080,409	2,080,409	0
Contributions and Donations	33,000	34,555	34,555	0
Miscellaneous	0	14,618	14,618	0
Total Revenues	12,251,450	12,160,753	12,160,753	0
Expenditures:				
Current:				
Instruction:				
Regular	325,398	462,667	462,667	0
Special	6,280,848	6,611,602	6,611,602	0
Adult/Continuing	17,759	7,102	7,102	0
Support Services:				
Pupils	2,698,346	2,722,149	2,722,149	0
Instructional Staff	1,118,945	781,114	781,114	0
Board of Education	53,442	63,479	63,479	0
Administration	837,967	833,080	833,080	0
Fiscal	346,925	330,595	330,595	0
Operation and Maintenance of Plant	217,746	275,558	275,558	0
Central	167,300	246,508	246,508	0
Total Expenditures	12,064,676	12,333,854	12,333,854	0
Excess of Revenues Over (Under) Expenditures	186,774	(173,101)	(173,101)	0
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	1,500	20,074	20,074	0
Advances In	310,291	166,948	166,948	0
Advances Out	(282,812)	(200,723)	(200,723)	0
Total Other Financing Sources (Uses)	28,979	(13,701)	(13,701)	0
Net Change in Fund Balance	215,753	(186,802)	(186,802)	0
Fund Balance at Beginning of Year	2,601,976	2,601,976	2,601,976	0
Prior Year Encumbrances Appropriated	162,007	162,007	162,007	0
Fund Balance at End of Year	$2,979,736	$2,577,181	$2,577,181	$0

See accompanying budgetary notes

NOTE 1 - BUDGETARY PROCESS

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes.

The Educational Service Center's Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

The Educational Service Center's Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board. Prior to fiscal year-end, the Educational Service Center passed an amended certificate of estimated revenues that reflected actual revenues for the fiscal year.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year. Prior to fiscal year-end, the Educational Service Center passed a supplemental appropriation that reflected actual expenditures plus encumbrances for the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Budget Basis) – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

1. Revenues 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. Investments are recorded at fair value (GAAP basis) rather than cost (budget basis).

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

5. Advances In and Advances Out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

Net Change in Fund Balances

	General
GAAP Basis	($182,699)
Adjustments:	
Revenue Accruals	(126,857)
Expenditure Accruals	266,830
Decrease in Fair Value of Investments - FY 2018	10,682
Decrease in Fair Value of Investments - FY 2017	(1,565)
Encumbrances	(119,418)
Advances	(33,775)
Budget Basis	($186,802)

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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*

South Central Ohio Educational Service Center
522 Glenwood Avenue
New Boston, Ohio 45662

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Central Ohio Educational Service Center (the Educational Service Center), Scioto County, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated December 20, 2018.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.
Chillicothe, Ohio

December 20, 2018

OHIO AUDITOR OF STATE
KEITH FABER

SOUTH CENTRAL OHIO EDUCATIONAL SERVICE CENTER

SCIOTO COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 26, 2019