EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY
MEDINA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY
MEDINA COUNTY

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OHIO AUDITOR OF STATE
KEITH FABER

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INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Medina County
Medina County
124 West Washington Street
Medina, Ohio 44256

To the Board of Governors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during the year ended June 30, 2018, the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2020, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

November 13, 2020

The discussion and analysis of the Educational Service Center of Medina County'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 performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position increased $2,722,883 during fiscal year 2018 due to changes in components related to GASB 68/75. The decrease in net pension liability and OPEB liability substantially decreased all instructional and support service expenses compared to fiscal year 2017.

- Capital assets decreased $28,614 during fiscal year 2018.

- The Educational Service Center implemented GASB 75, which reduced beginning net position as previously reported by $2,241,506.

Using this Annual Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole 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 most significant funds with all other nonmajor funds presented in total in one column. In the case of the Educational Service Center, the general fund is by far the most significant fund.

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2018?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources (except fiduciary funds) using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net position and changes in net position. This change in net position is important because it tells the reader that, for 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*, Governmental Activities include the Educational Service Center's programs and services, including instruction, support services and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 14. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major governmental fund is the general fund.

Governmental Funds Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Reporting the Educational Service Center's Fiduciary Responsibilities

The Educational Service Center is the trustee, or fiduciary, for some of its scholarship programs. This activity is presented as a private purpose trust fund. The Educational Service Center also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Educational Service Center's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 18 and 19. These activities are excluded from the Educational Service Center's other financial statements because the assets cannot be utilized by the Educational Service Center to finance its operations.

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 2018 compared to 2017:

Table 1
Net Position

	Governmental Activities	
	2018	Restated 2017
Assets		
Current and Other Assets	$ 3,965,591	$ 3,334,972
Capital Assets	127,639	156,253
Total Assets	4,093,230	3,491,225
Deferred Outflows of Resources		
Pension	1,958,493	1,807,686
OPEB	144,776	29,310
Deferred Outflows of Resources	2,103,269	1,836,996
Liabilities		
Other Liabilities	459,915	410,143
Long-Term Liabilities:		
Due Within One Year	64,930	35,262
Due in More Than One Year		
Net Pension Liability	6,704,856	8,410,390
Net OPEB Liability	2,088,502	2,270,816
Other Amounts	72,415	70,730
Total Liabilities	9,390,618	11,197,341
Deferred Inflows of Resources		
Pension	1,263,077	1,528,520
OPEB	217,561	0
Total Deferred Inflows of Resources	1,480,638	1,528,520
Net Position		
Investment in Capital Assets	127,639	156,253
Restricted	153,080	109,748
Unrestricted	(4,955,476)	(7,663,641)
Total Net Position	$ (4,674,757)	$ (7,397,640)

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, 2018, from $(5,156,134) to $(7,397,640).

At year end, capital assets represented 3 percent of total assets. Capital assets include furniture, fixtures, equipment and vehicles. Investment in capital assets was $127,639 at June 30, 2018. These capital assets are used to provide services to students and are not available for future spending.

A portion of the Educational Service Center's net position, $153,080 represents resources that are subject to external restrictions on how they may be used. The government-wide unrestricted net position was a deficit of $4,955,476 in fiscal year 2018, which is primarily caused by GASB Statement No. 68 and 75.

The increase in current and other assets was primarily caused by an increase in cash due to the timing of revenues to cover expenditures. The increases in deferred outflows of resources for pension and OPEB and deferred inflows of resources for OPEB were primarily caused by changes related to net pension and OPEB liabilities during 2018.

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In order to further understand what makes up the change 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
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program Revenues:		
Charges for Services and Sales	$ 4,389,841	$ 4,567,715
Operating Grants, Contributions and Interest	111,666	124,816
Total Program Revenues	4,501,507	4,692,531
General Revenues:		
Grants and Entitlements Not Restricted	780,038	848,789
Miscellaneous	78,336	152,145
Total General Revenues	858,374	1,000,934
Total Revenues	5,359,881	5,693,465
Program Expenses		
Instruction:		
Regular	(16,618)	369,872
Special	252,960	719,936
Vocational	38,202	140,153
Adult/Continuing	390	325
Student Intervention Services	23,392	33,862
Other	(17,862)	2,450
Support Services:		
Pupils	608,468	844,678
Instructional Staff	222,097	712,839
Board of Governors	24,801	21,926
Administration	155,733	323,856
Fiscal	266,712	291,198
Business	87,560	95,046
Operation and Maintenance of Plant	7,565	6,540
Pupil Transportation	420,259	488,648
Central	541,755	708,130
Operation of Non-Instructional Services		
Community Services	6,356	9,402
Extracurricular Activities	15,228	32,622
Total Expenses	2,636,998	4,801,483
Increase (Decrease) in Net Position	$ 2,722,883	$ 891,982

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 $29,310 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 $53,239. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	$ 2,636,998
Negative OPEB Expense under GASB 75	53,239
2018 Contractually Required Contribution	26,980
Adjusted 2018 Program Expenses	2,717,217
Total 2017 Program Expenses under GASB 45	4,801,483
Decrease in Program Expenses not Related to OPEB	$ (2,084,266)

The previously discussed decrease in NPL and NOL, substantially decreased all instructional, support services and extracurricular activities expenses compared to fiscal year 2017. Other than from this impact fluctuations in revenues and expenses can occur based on the changing needs and service requests of member districts.

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

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2018	2017	2018	2017
Instruction:				
Regular	$ (16,618)	$ 369,872	$ (389,282)	$ (15,002)
Special	252,960	719,936	(481,452)	3,449
Vocational	38,202	140,153	(112,978)	1,607
Adult/Continuing	390	325	390	(35,127)
Student Intervention Services	23,392	33,862	1,509	31,885
Other	(17,862)	2,450	(18,742)	2,450
Support Services:				
Pupils	608,468	844,678	(193,857)	32,890
Instructional Staff	222,097	712,839	(483,988)	(26,514)
Board of Governors	24,801	21,926	1,600	835
Administration	155,733	323,856	(155,633)	4,265
Fiscal	266,712	291,198	(9,149)	15,948
Business	87,560	95,046	11,335	(24,557)
Operation and Maintenance of Plant	7,565	6,540	514	346
Pupil Transportation	420,259	488,648	(11,980)	67,580
Central	541,755	708,130	(21,979)	16,895
Operation of Non-Instructional Services				
Community Services	6,356	9,402	226	308
Extracurricular Activities	15,228	32,622	(1,043)	31,694
Total Expenses	$ 2,636,998	$ 4,801,483	$ (1,864,509)	$ 108,952

For all governmental activities, program receipts supported is 100 percent of the current year expenses.

This was achieved in the current year solely due to the impact of the change in COLA related to NPL as previously discussed.

The primary support of the Educational Service Center is contracted fees and services provided to member districts; however, it is the intention of the Board of Governors not to overcharge the districts served and to utilize the general revenues to offset the cost of programs to member districts.

Governmental Funds

Information about the Educational Service Center's major funds starts on page 14. These funds are accounted for using the modified accrual basis of accounting.

The governmental fund's net change in fund balance for fiscal year 2018 was an increase of $580,535.

The most significant change within the Educational Service Center was reported in the general fund with an increase in fund balance of $527,492 for similar reasons previously discussed.

Capital Assets

At the end of fiscal year 2018, the Educational Service Center had $127,639 invested in capital assets, net of depreciation. Table 4 shows fiscal year 2018 balances compared with 2017.

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

	Governmental Activities	
	2018	2017
Furniture, Fixtures and Equipment	$ 27,164	$ 20,783
Vehicles	100,475	135,470
Totals	$ 127,639	$ 156,253

The $28,614 decrease in capital assets was attributable to depreciation expense exceeding purchases. See Note 8 for more information about the capital assets of the Educational Service Center.

Current Issues

The Educational Service Center of Medina County is financially stable and continues to offer a wide variety of services to school districts in Medina County and beyond. The Educational Service Center strives to be the leader in providing services and products that promote excellence in education. Through on-going communication with our client districts, the educational service center is constantly evaluating avenues to be of further service to our clients. The environment in which educational service centers operate remains challenging and fortunes can change quickly, but the Educational Service Center of

Medina County believes it is well positioned to continue to provide cost effective services to our client districts far into the future.

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 financial information, contact the Treasurer at Educational Service Center of Medina County, 124 W. Washington St., Medina, Ohio 44256 or call 330-723-6393.

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

		Governmental Activities
Assets		
Equity in Pooled Cash and Investments	$	3,861,850
Receivables:		
Accounts		103,741
Depreciable Capital Assets (Net)		127,639
Total Assets		4,093,230
Deferred Outflows of Resources		
Pension		1,958,493
OPEB		144,776
Total Deferred Outflows of Resources		2,103,269
Liabilities		
Accrued Wages and Benefits		165,992
Intergovernmental Payable		52,626
Unearned Revenue		241,297
Long Term Liabilities:		
Due Within One Year		64,930
Due In More Than One Year:		
Net Pension Liability		6,704,856
Net OPEB Liability		2,088,502
Other Amounts Due in More Than One Year		72,415
Total Liabilities		9,390,618
Deferred Inflows of Resources		
Pension		1,263,077
OPEB		217,561
Total Deferred Inflows of Resources		1,480,638
Net Position		
Investment in Capital Assets		127,639
Restricted For:		
Other Purposes		153,080
Unrestricted		(4,955,476)
Total Net Position	$	(4,674,757)

See accompanying notes to the basic financial statements.

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$ (16,618)	$ 371,592	$ 1,072	$ 389,282
Special	252,960	734,412	0	481,452
Vocational	38,202	151,180	0	112,978
Adult/Continuing	390	0	0	(390)
Student Intervention Services	23,392	21,883	0	(1,509)
Other	(17,862)	880	0	18,742
Support Services:				
Pupils	608,468	798,437	3,888	193,857
Instructional Staff	222,097	706,085	0	483,988
Board of Governors	24,801	23,201	0	(1,600)
Administration	155,733	311,366	0	155,633
Fiscal	266,712	275,861	0	9,149
Business	87,560	76,225	0	(11,335)
Operation and Maintenance of Plant	7,565	7,051	0	(514)
Pupil Transportation	420,259	327,373	104,866	11,980
Central	541,755	561,934	1,800	21,979
Operation of Non-Instructional Services				
Community Services	6,356	6,090	40	(226)
Extracurricular Activities	15,228	16,271	0	1,043
Total	$ 2,636,998	$ 4,389,841	$ 111,666	1,864,509

General Revenues	
Grants and Entitlements Not Restricted to Specific Programs	780,038
Investment Earnings	38,787
Miscellaneous	39,549
Total General Revenues	858,374
Change in Net Position	2,722,883
Net Position Beginning of Year Restated (See Note 2)	(7,397,640)
Net Position End of Year	$ (4,674,757)

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Investments	$ 3,664,693	$ 197,157	$ 3,861,850
Receivables:			
Accounts	100,535	3,206	103,741
Total Assets	$ 3,765,228	$ 200,363	$ 3,965,591
Liabilities			
Accrued Wages and Benefits	$ 159,793	$ 6,199	$ 165,992
Intergovernmental Payable	51,668	958	52,626
Unearned Revenue	241,297	0	241,297
Total Liabilities	452,758	7,157	459,915
Deferred Inflows of Resources			
Unavailable Revenue	4,674	426	5,100
Fund Balances			
Nonspendable	247	0	247
Restricted	0	159,510	159,510
Committed	0	31,282	31,282
Assigned	743,090	1,988	745,078
Unassigned	2,564,459	0	2,564,459
Total Fund Balances	3,307,796	192,780	3,500,576
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 3,765,228	$ 200,363	$ 3,965,591

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balances		$ 3,500,576
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.		127,639
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Tuition		5,100
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		
Deferred Outflows - Pension	$ 1,958,493	
Deferred Inflows - Pension	(1,263,077)	
Deferred Outflows - OPEB	144,776	
Deferred Inflows - OPEB	(217,561)	
Net Pension Liability-OPEB	(2,088,502)	
Net Pension Liability-Pension	(6,704,856)	(8,170,727)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences		(137,345)
Net Position of Governmental Activities		$ (4,674,757)

See accompanying notes to the basic financial statements.

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	$ 780,037	$ 106,666	$ 886,703
Investment Income	38,787	0	38,787
Tuition and Fees	435,973	98,520	534,493
Customer Sales and Services	3,837,429	18,006	3,855,435
Gifts and Donations	1,036	5,000	6,036
Miscellaneous	27,275	10,840	38,115
Total Revenues	5,120,537	239,032	5,359,569
Expenditures			
Current:			
Instruction:			
Regular	393,094	4,972	398,066
Special	785,064	0	785,064
Vocational	161,607	0	161,607
Student Intervention Services	23,392	0	23,392
Other	941	0	941
Support Services:			
Pupils	838,538	18,035	856,573
Instructional Staff	754,784	0	754,784
Board of Governors	24,801	0	24,801
Administration	332,841	0	332,841
Fiscal	294,887	0	294,887
Business	81,482	0	81,482
Operation and Maintenance of Plant	7,537	0	7,537
Pupil Transportation	244,637	186,182	430,819
Central	600,691	1,800	602,491
Extracurricular Activities	16,357	0	16,357
Operation of Non-Instructional Services			
Community Services	7,392	0	7,392
Total Expenditures	4,568,045	210,989	4,779,034
Excess of Revenues Over (Under) Expenditures	552,492	28,043	580,535
Other Financing Sources (Uses)			
Transfers In	0	25,000	25,000
Transfers Out	(25,000)	0	(25,000)
Total Other Financing Sources (Uses)	(25,000)	25,000	0
Net Change in Fund Balance	527,492	53,043	580,535
Fund Balances Beginning of Year	2,780,304	139,737	2,920,041
Fund Balances End of Year	$ 3,307,796	$ 192,780	$ 3,500,576

See accompanying notes to the basic financial statements.

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

Net Change in Fund Balances - Total Governmental Funds			$	580,535
Amounts reported for governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.				
Capital Asset Additions	$	17,768		
Current Year Depreciation		(46,382)		(28,614)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.				
Tuition				312
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.				
Pension		443,002		
OPEB		26,980		469,982
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.				
Pension		1,678,782		
OPEB		53,239		1,732,021
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.				
Compensated Absences				(31,353)
Change in Net Position of Governmental Activities			$	2,722,883

See accompanying notes to the basic financial statements.

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

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Investments	$ 118,606	$ 991
Liabilities		
Undistributed Monies	0	$ 991
Net Position		
Held in Trust for Scholarships	$ 118,606	

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2018

	Private Purpose Trust
Additions	
Gifts and Contributions	$ 1,420
Investment Earnings	1,718
Total Additions	3,138
Deductions	
Payments in Accordance with Trust Agreements	2,500
Change in Net Position	638
Net Position Beginning of Year	117,968
Net Position End of Year	$ 118,606

See accompanying notes to the basic financial statements.

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Note 1 – Nature of Basic Operations and Description of the Entity

The Educational Service Center of Medina County (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies.

Reporting Entity

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or if 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. The Educational Service Center has no component units.

The Educational Service Center is associated with the Northeast Ohio Network for Educational Technology (NEOnet) which is defined as a Jointly Governed Organization, the Northcoast Shared Services Alliance, a Jointly Governed Organization with the Educational Service Center and Cuyahoga County and the Educational Service Center of Lorain County for substitute services, Connect, a Jointly Governed Organization with the Educational Service Center and Cuyahoga County and the Educational Service Center of Lorain County for technology support, the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 7 to the basic 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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Following are the most significant of the Educational Service Center's accounting policies.

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

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

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

Fund Accounting

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

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

General Fund The general fund accounts 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 other governmental funds of the Educational Service Center account for grants and other resources to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources.

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. The Educational Service Center has one private purpose trust fund which is used to account for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for donations to the County court system and resources held on behalf of member districts.

Measurement Focus

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

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and 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.

The private purpose trust fund is reported using the economic resources measurement focus and is excluded from the governmental activities. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net position. The statement of changes in fiduciary net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Agency funds do not report a measurement focus as they do not report operations.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred 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 the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of the 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 year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 10 and 11.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources include pension, OPEB and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 10 and 11).

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

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

Budgetary Data

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

The Educational Service Center is not required to file budgetary information with the Ohio Department of Education. Even though the budgetary process for the Educational Service Center is discretionary, the Educational Service Center continues to have its Board approve appropriations and estimated revenues. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

Cash and Investments

To improve cash management, all cash received by the Educational Service Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet.

During fiscal year 2018, investments were limited to certificates of deposit and STAR Ohio, (the State Treasurer's Investment Pool). Except for investment contracts that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

During the year 2018, the Educational Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards

Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants.* The Educational Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $100 million, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to $38,787 which includes $4,630 assigned from other Educational Service Center funds. Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as "Equity in Pooled Cash and Investments." Investments with an original maturity of more than three months are reported as "Investments."

Capital Assets

The Educational Service Center's capital assets are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of $500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and construction in progress (when applicable), are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives
Furniture, Fixtures and Equipment	5 - 10 Years
Vehicles	5 Years

Interfund Balances

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

Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will be paid as a termination benefit.

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

Pensions and Other Postemployment Benefits (OPEB)

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

Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Interfund Activity

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

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At June 30, 2018, there was no net position restricted by enabling legislation.

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

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* the Educational Service Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The 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. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Educational Service Center Governing Board. The Educational Service Center Governing Board has, by resolution, authorized the Treasurer to assign fund balance. The Educational Service Center Governing Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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.

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.

Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial reporting for Postemployment Benefits other than Pensions*, GASB Statement No. 81, *Irrevocable Split-Interest Agreements,* GASB Statement No. 85, *Omnibus 2017* and GASB Statement No. 86, *Certain Debt Extinguishments.*

GASB Statement No. 75 requires recognition of the entire net postemployment benefits other than pensions (other postemployment benefits or OPEB) liability and a more comprehensive measure of postemployment benefits expense for OPEB provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements. The implementation of GASB Statement No. 75 resulted in the inclusion of net OPEB liability and OPEB expense components on the accrual financial statements. See below for the effect on net position as previously reported.

GASB Statement No. 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, it requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement also requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. 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 Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Educational Service Center.

Net Position, June 30, 2017	$	(5,156,134)
Adjustments:		
Net OPEB Liability		(2,270,816)
Deferred Outflow-Payments Subsequent to Measurement Date		29,310
Restated Net Position, July 1, 2017	$	(7,397,640)

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 3 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

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	General	Other Governmental Funds	Total
Nonspendable for:			
Unclaimed Monies	$ 247	$ 0	$ 247
Restricted for:			
Training	0	145,825	145,825
Other Purposes	0	13,685	13,685
Total Restricted	0	159,510	159,510
Committed to:			
Capital Projects	0	31,282	31,282
Assigned for:			
Encumbrances:			
Instruction	5,256	0	5,256
Support Services	43,169	0	43,169
Service Program Fees	694,665	0	694,665
Capital Projects	0	1,988	1,988
Total Assigned	743,090	1,988	745,078
Unassigned	2,564,459	0	2,564,459
Total Fund Balance (Deficit)	$ 3,307,796	$ 192,780	$ 3,500,576

Note 4 - Deposits and Investments

State statutes classify monies held by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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 Governors has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

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 are to be deposited or invested in the following securities:

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

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

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

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

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

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

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

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

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

Deposits- At year end, $1,049,669 of the Educational Service Center's bank balance of $1,451,522 was exposed to custodial credit risk. Although the securities were held by the pledging financial institutions' trust department in the Educational Service Center's name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

Custodial Credit Risk- Custodial credit risk for deposits is the risk that in the event of a bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in possession of an outside party.

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

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

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

Investments

As of June 30, 2018, the Educational Service Center had the following investment:

Rating	Investment	Measurement Amount	Investment Maturity in months 0 - 12
	Net Asset Value (NAV):		
AAAm	STAR Ohio	$ 2,554,854	$ 2,554,854

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center’s policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center.

Credit Risk: STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2018, is 49 days

Concentration of Credit Risk: The Educational Service Center places no limit on the amount the Educational Service Center may invest in any one issuer.

Note 5 - Receivables

Receivables at June 30, 2018 consisted of accounts (charges for services, tuition and fees) receivable. All receivables are considered collectible within one year and in full.

Note 6 – State Funding

The Educational Service Center is funded through a combination of State and local funds. The bulk of State funding comes through the Ohio Department of Education to provide general support to all educational service centers based upon a single line-item amount provided to educational service centers as part of the State's biennium budget. That general support amount provided to educational service centers equaled $24.00 per student for fiscal year 2018 with an additional $2.00 per available if the educational service center was recognized as a "high performing educational service center." During fiscal year 2018, the Educational Service Center of Medina County applied for and was granted the "high performing educational service center" designation and was therefore funded at $26.00 per student for the fiscal year. The total amount of this (general support) funding is based upon the ADM (Average Daily Membership) of the school districts aligned with the Educational Service Center multiplied by the per student dollar figure.

The Ohio Department of Education also withholds $6.50 per ADM from Educational Service Centers aligned with the Educational Service Center and remits those amounts to the Educational Service Center over the course of the fiscal year.

The Educational Service Center also receives an annual amount of funding (distributed monthly) from the Ohio Department of Education to support a regional bus driver training program. The Educational Service Center of Medina County is one of eight regional sponsors of the state-wide bus driver training program.

The Educational Service Center also receives unit funding from the Ohio Department of Education that partially funds Gifted and Talented Coordinators who are employed by the Educational Service Center and provide services to contracting school districts.

State funding is subject to changes (which could be substantial) with each biennium State budget.

Note 7 – Jointly Governed Organizations and Public Entity Risk Pools

Jointly Governed Organizations

<u>Northeast Ohio Network for Educational Technology</u>

The Northeast Ohio Network for Educational Technology (NEOnet) is a consortium of school districts, including educational service centers which have voluntarily formed in order to provide for the schools' common needs. NEOnet is 1 of 23 sites in the Ohio Education Computer Network providing computer services to schools in their respective geographic areas. NEOnet serves school districts and educational service centers primarily in Summit, Medina and Portage Counties. The governance of NEOnet is controlled by an Assembly, Board of Directors and several subcommittees. The Agreement explains the role of each group and the methods used to make decisions. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

North Coast Shared Services Alliance (NCSSA)

NCSSA is a jointly governed organization among the Service Center, the Educational Service Center of Cuyahoga County, Ohio (formally the Educational Service Center of Cuyahoga County), the Educational Service Center of Lorain County, and a private sector substitute provider, Rachel Wixey and Associates. The jointly governed organization was formed for the purpose of providing substitute management and human resources services to school districts throughout the region. Each of the educational service centers supports NCSSA based on services provided to the school districts. The degree of control exercised by any patiicipating educational service center is limited to the contractually agreed upon duties with regard to substitute services. The Educational Service Center of Cuyahoga County, Ohio serves as the fiscal agent.

Connect

As of April 1, 2016, the Educational Service Centers of Medina, Cuyahoga and Lorain Counties along with the Ohio Schools Council assumed ownership of the Information Technology Center (ITC) formally known as North Coast Council (NCC). Per the Owner-Member Agreement, ninety-five percent of the ownership of the organization is allocated among the three educational service centers based upon the proportion of students in each of the three counties that are served by Connect. The purpose of the organization is to maintain and expand technology and support services to member organizations. Further information may be obtained by contacting the Director at 5700 West Canal Road, Valley View, Ohio, 44125.

Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Oho Revised Code. The Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program (WCGRP) was established as an insurance purchasing pool.

The WCGRP'S business and affairs are conducted by a nine member Board of Directors of the Ohio Schools Council (OSC) consisting of a Chairman, Vice Chairman, Past Chairman as well as 6 Directors. The Chairman of the OSC, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

Risk Sharing Pool

The Stark County Schools Council of Governments (the Council) is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding 12 month period.

Note 8 - Capital Assets

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

	Balance 7/1/17	Additions	Deletions	Balance 6/30/18
Governmental Activities				
Capital Assets, being depreciated:				
Furniture, Fixtures and Equipment	$ 206,362	$ 15,865	$ (21,643)	$ 200,584
Vehicles	265,566	1,903	(14,300)	253,169
Total Capital Assets, being depreciated	471,928	17,768	(35,943)	453,753
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(185,579)	(9,484)	21,643	(173,420)
Vehicles	(130,096)	(36,898)	14,300	(152,694)
Total Accumulated Depreciation	(315,675)	(46,382)	35,943	(326,114)
Governmental Activities Capital Assets, Net	$ 156,253	$ (28,614)	$ 0	$ 127,639

Depreciation expense was charged as follows:

Governmental Activities:	
Instruction:	
Adult Education	$ 390
Support Services:	
Pupil	118
Instructional Staff	3,729
Administration	241
Business	9,089
Pupil Transportation	32,143
Central	672
Total Depreciation	$ 46,382

Note 9 - 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. The Educational Service Center contracted with Leonard Insurance Company for a Commercial Package Policy stating September 1, 2017, through August 31, 2018. The policy covers all furniture and equipment that has a value equal or greater than $500. In addition, the Commissioners of Medina County provide insurance coverage for the contents of the office space they provide to the Educational Service Center.

Professional liability was provided by the Leonard Insurance Company starting September 1, 2017, through August 31, 2018. Coverage is $2,000,000 annual aggregate/$1,000,000 single occurrence limit and no deductible for each claim. An Umbrella policy increases the annual aggregate to $5,000,000 and total coverage for each occurrence to $5,000,000. A school leader's error and omissions policy is also provided by Leonard Insurance Company with an aggregate limit of $1,000,000 and a deductible of $2,500. Vehicles were covered by the Leonard Insurance Company as well. The policy holds a $250 deductible for comprehensive and $500 deductible for collision. The policy includes coverage for hired and non-owned automobiles. Automobile liability has a $1,000,000 combined single limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

For fiscal year 2018, the Educational Service Center participated in the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 7). The Program is intended to reduce premiums for the participants. The workers' compensation experience history of all group members is compared to an expected losses figure and a group discount rate is calculated. The group discount rate is then applied to the premium owed by the Educational Service Center. Participation in the program is limited to agencies that can meet the selection criteria. Agencies apply for participation each year. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Note 10 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – Educational Service Center non-teaching employees participate in SERS, a statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor 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 30 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.

When a benefit recipient has received benefits for 12 months, an annual COLA is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a three percent simple annual COLA. For those retiring after January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at three percent.

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 14 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2018.

The Educational Service Center's contractually required contribution to SERS was $241,413 for fiscal year 2018. Of this amount, $9,397 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 was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was $201,589 for fiscal year 2018. Of this amount, $13,494 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.05739860%	0.01378820%	
Prior Measurement Date	0.05338760%	0.01345236%	
Change in Proportionate Share	0.00401100%	0.00033584%	
Proportionate Share of the Net Pension Liability	$ 3,429,440	$ 3,275,416	$ 6,704,856
Pension Expense	$ (154,960)	$ (1,523,822)	$ (1,678,782)

Deferred outflows/inflows of resources represent the effect of changes in the net pension liability due to the difference between projected and actual investment earnings, differences between expected and actual actuarial experience, changes in assumptions and changes in the Educational Service Center's proportion of the collective net pension liability. The deferred outflows and deferred inflows are to be included in pension expense over current and future periods. The difference between projected and actual investment earnings is recognized in pension expense using a straight line method over a five year period beginning in the current year. Deferred outflows and deferred inflows resulting from changes in sources other than differences between projected and actual investment earnings are amortized over the average expected remaining service lives of all members (both active and inactive) using the straight line method. Employer contributions to the pension plan subsequent to the measurement date are also required to be reported as a deferred outflow of resources.

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	$ 147,592	$ 126,479	$ 274,071
Changes of Assumptions	177,339	716,370	893,709
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	172,486	175,225	347,711
Educational Service Center Contributions Subsequent to the Measurement Date	241,413	201,589	443,002
Total Deferred Outflows of Resources	$ 738,830	$ 1,219,663	$ 1,958,493

	SERS	STRS	Total
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 26,398	$ 26,398
Net Difference between Projected and Actual Earnings on Pension Plan Investments	16,279	108,094	124,373
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	132,295	980,011	1,112,306
Total Deferred Inflows of Resources	$ 148,574	$ 1,114,503	$ 1,263,077

$443,002 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 fiscal 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	$ 105,812	$ (111,707)	$ (5,895)
2020	223,911	35,331	259,242
2021	99,069	(97,342)	1,727
2022	(79,949)	77,289	(2,660)
	$ 348,843	$ (96,429)	$ 252,414

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 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 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	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates among active members were based upon 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 actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015. The assumed rate of inflation, payroll growth assumption and assumed real wage growth were reduced in the most recent actuarial valuation. The rates of withdrawal, retirement and disability updated to reflect recent experience and mortality rates were also updated.

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US 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 earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what 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	$ 4,759,171	$ 3,429,440	$ 2,315,518

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
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	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

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.

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.

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 Real Rate of Return**
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
Total	100.00 %	

*The target allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**Ten 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 projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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 payments 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 as of June 30, 2017, 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 assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$ 4,695,198	$ 3,275,416	$ 2,079,463

Note 11 - Defined Benefit OPEB Plans

Net OPEB Liability

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

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

Ohio Revised Code limits the 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 OPEB are financed; however, the Educational Service Center does receive the benefit of employees' services in exchange for compensation including OPEB.

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

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Educational Service Center's surcharge obligation was $26,980.

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 $35,921 for fiscal year 2018. Of this amount $27,328 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.05777530%	0.01378820%	
Prior Measurement Date	0.05442731%	0.01345236%	
Change in Proportionate Share	0.00334799%	0.00033584%	
Proportionate Share of the Net OPEB Liability	$ 1,550,537	$ 537,965	$ 2,088,502
OPEB Expense	$ 108,352	$ (161,591)	$ (53,239)

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	$	31,054	$	31,054
Changes in Proportionate Share and Differences between Educational Service Center Contributions and Proportionate Share of Contributions		71,347		15,395		86,742
Educational Service Center Contributions Subsequent to the Measurement Date		26,980		0		26,980
Total Deferred Outflows of Resources	$	98,327	$	46,449	$	144,776
Deferred Inflows of Resources						
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	$	4,094	$	22,994	$	27,088
Changes of Assumptions		147,138		43,335		190,473
Total Deferred Inflows of Resources	$	151,232	$	66,329	$	217,561

$26,980 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	$	(28,485)	$	(5,228)	$	(33,713)
2020		(28,485)		(5,228)		(33,713)
2021		(21,893)		(5,228)		(27,121)
2022		(1,022)		(5,230)		(6,252)
2023		0		520		520
Thereafter		0		514		514
	$	(79,885)	$	(19,880)	$	(99,765)

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 investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 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 target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

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

Sensitivity of the 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 percent) and higher (4.63 percent) than the current discount rate (3.63 percent). 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 percent decreasing to 4.0 percent) and higher (8.5 percent decreasing to 6.0 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$ 1,872,471	$ 1,550,537	$ 1,295,483

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's Proportionate Share of the Net OPEB Liability	$ 1,258,145	$ 1,550,537	$ 1,937,524

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	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 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.

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 Real Rate of Return*
Domestic Equity	28.00 %	7.35 %
International Equity	23.00	7.55
Alternatives	17.00	7.09
Fixed Income	21.00	3.00
Real Estate	10.00	6.00
Liquidity Reserves	1.00	2.25
	100.00 %	

*Ten 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 actual rate of return, without net value added by management.

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

Sensitivity of the 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	$ 722,209	$ 537,965	$ 392,352

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's Proportionate Share of the Net OPEB Liability	$ 373,755	$ 537,965	$ 754,084

Note 12 - Employee Benefits

Compensated Absences

Two hundred and sixty/sixty-one day certified and classified employees earn five to twenty days of vacation per year, depending upon their length of service. Employees may carry a maximum of five vacation days over into the next year. Employees are given access to all vacation days they are eligible for at the beginning of each year but they earn the time allotted over the course of the year. Upon separation, a calculation is performed to determine the amount of vacation time that has been earned that year. Any time that has been earned and is unused plus any time that was carried over from the prior year that has not been used is paid out to the employee upon separation. The maximum amount of vacation time that could be paid out is twenty-five days.

Administrators, supervisors, certified and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 60 days.

Life Insurance

The Educational Service Center provides $50,000 life insurance and accidental death and dismemberment insurance to most employees through Educational Employees Life Insurance Trust.

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Note 13 - Long - Term Obligations

The changes in the Educational Service Center's long-term obligations during the fiscal year consist of the following:

	Restated Balance 7/1/17	Additions	Reductions	Balance 6/30/18	Amounts Due in One Year
Governmental Activities:					
Net Pension/OPEB Liability					
Pension	$ 8,410,390	$ 0	$1,705,534	$ 6,704,856	$ 0
OPEB	2,270,816	0	182,314	2,088,502	0
Total Net Pension/OPEB Liability	10,681,206	0	1,887,848	8,793,358	0
Compensated Absences	105,992	64,162	32,809	137,345	64,930
Total Governmental Activities Long-Term Liabilities	$10,787,198	$ 64,162	$1,920,657	$ 8,930,703	$ 64,930

Compensated absences will be paid from the general fund. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the general fund. For additional information related to the net pension liability and net OPEB liability see Notes 10 and 11.

Note 14 – Contingencies

Grants

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

Litigation

The Educational Service Center is not party to any claims or lawsuits that would, in the Educational Service Center's opinion, have a material effect of the basic financial statements.

Educational Service Center Funding

School district 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, all ODE adjustments for fiscal year 2018 have been made.

Note 15 – Interfund Transfers

In fiscal year 2018, general fund transferred $25,000 to the capital projects fund to cover capital expenditures.

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Educational Service Center of Medina County
Medina County, Ohio
Required Supplementary Information
Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability
Last Five Fiscal Years (1)

	2018	2017	2016	2015	2014
School Employees Retirement System (SERS)					
Educational Service Center's Proportion of the Net Pension Liability	0.05739860%	0.05338760%	0.05622230%	0.05882600%	0.05882600%
Educational Service Center's Proportionate Share of the Net Pension Liability	$ 3,429,440	$ 3,907,480	$ 3,208,099	$ 2,977,150	$ 3,498,193
Educational Service Center's Covered Payroll	$ 1,842,157	$ 1,431,943	$ 1,672,018	$ 1,757,850	$ 1,693,598
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	186.16%	272.88%	191.87%	169.36%	206.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)					
Educational Service Center's Proportion of the Net Pension Liability	0.01378820%	0.01345236%	0.01932623%	0.01849580%	0.01849580%
Educational Service Center's Proportionate Share of the Net Pension Liability	$ 3,275,416	$ 4,502,910	$ 5,341,205	$ 4,498,819	$ 5,358,963
Educational Service Center's Covered Payroll	$ 1,540,536	$ 1,649,443	$ 2,011,900	$ 1,905,138	$ 2,056,254
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	212.62%	273.00%	265.48%	236.14%	260.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

Educational Service Center of Medina County
Medina County, Ohio
Required Supplementary Information
Schedule of the Educational Service Center's Contributions - Pension
Last Ten Fiscal Years

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 241,413	$ 257,902	$ 200,472	$ 220,372
Contributions in Relation to the Contractually Required Contribution	(241,413)	(257,902)	(200,472)	(220,372)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Educational Service Center's Covered Payroll	$ 1,788,244	$ 1,842,157	$ 1,431,943	$ 1,672,018
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 201,589	$ 215,675	$ 230,922	$ 281,666
Contributions in Relation to the Contractually Required Contribution	(201,589)	(215,675)	(230,922)	(281,666)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Educational Service Center's Covered Payroll	$ 1,439,921	$ 1,540,536	$ 1,649,443	$ 2,011,900
Pension 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
$ 243,638	$ 234,394	$ 226,917	$ 228,677	$ 243,720	$ 159,587
(243,638)	(234,394)	(226,917)	(228,677)	(243,720)	(159,587)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 1,757,850	$ 1,693,598	$ 1,687,115	$ 1,819,228	$ 1,800,000	$ 1,621,819
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
$ 247,668	$ 267,313	$ 258,226	$ 334,399	$ 194,973	$ 189,843
(247,668)	(267,313)	(258,226)	(334,399)	(194,973)	(189,843)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 1,905,138	$ 2,056,254	$ 1,986,354	$ 2,572,300	$ 1,499,792	$ 1,460,331
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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Educational Service Center of Medina County
Medina County, Ohio
Required Supplementary Information
Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability
Last Two Fiscal Years (1)

	2018	2017
School Employees Retirement System (SERS)		
Educational Service Center's Proportion of the Net OPEB Liability	0.05777530%	0.05442731%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$ 1,550,537	$ 1,551,380
Educational Service Center's Covered Payroll	$ 1,842,157	$ 1,431,943
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	84.17%	108.34%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
State Teachers Retirement System (STRS)		
Educational Service Center's Proportion of the Net OPEB Liability	0.01378820%	0.01345236%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$ 537,965	$ 719,436
Educational Service Center's Covered Payroll	$ 1,540,536	$ 1,649,443
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	34.92%	43.62%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

Note: The amounts presented for each fiscal year were determined as of the measurement date, which is the prior fiscal year.

See accompanying notes to the required supplementary information.

Educational Service Center of Medina County
Medina County, Ohio
Required Supplementary Information
Schedule of the Educational Service Center's Contributions - OPEB
Last Ten Fiscal Years

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution (1)	$ 26,980	$ 29,310	$ 28,934	$ 42,429
Contributions in Relation to the Contractually Required Contribution	(26,980)	(29,310)	(28,934)	(42,429)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Educational Service Center's Covered Payroll	$ 1,788,244	$ 1,842,157	$ 1,431,943	$ 1,672,018
OPEB Contributions as a Percentage of Covered Payroll (1)	1.51%	1.59%	2.02%	2.54%
State Teachers Retirement System (STRS)				
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
Educational Service Center's Covered Payroll	$ 1,439,921	$ 1,540,536	$ 1,649,443	$ 2,011,900
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

2014		2013		2012		2011		2010		2009	
$	31,581	$	27,601	$	35,805	$	61,815	$	44,080	$	88,580
	(31,581)		(27,601)		(35,805)		(61,815)		(44,080)		(88,580)
$	0	$	0	$	0	$	0	$	0	$	0
$	1,757,850	$	1,693,598	$	1,687,115	$	1,819,228	$	1,800,000	$	1,621,819
	1.80%		1.63%		2.12%		3.40%		2.45%		5.46%
$	19,051	$	20,563	$	19,864	$	25,723	$	14,998	$	14,603
	(19,051)		(20,563)		(19,864)		(25,723)		(14,998)		(14,603)
$	0	$	0	$	0	$	0	$	0	$	0
$	1,905,138	$	2,056,254	$	1,986,354	$	2,572,300	$	1,499,792	$	1,460,331
	1.00%		1.00%		1.00%		1.00%		1.00%		1.00%

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

For fiscal year 2017, the SERS Board adopted the following assumption changes:

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
    - 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 was updated to the following:
    - 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 disable member was updated to the following:
    - 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.

Changes in Benefit Terms - SERS

For fiscal year 2018, the cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.50 percent with a floor of zero percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendar years 2018, 2019 and 2020.

Changes in Assumptions – STRS

For fiscal year 2018, the Retirement Board approved several changes to the actuarial assumptions in 2017. The long term expected rate of return was reduced from 7.75 percent to 7.45 percent, the inflation assumption was lowered from 2.75 percent to 2.50 percent, the payroll growth assumption was lowered to 3.00 percent, and total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25 percent due to lower inflation. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Changes in Benefit Terms - STRS

Effective for fiscal year 2018, the cost-of-living adjustment (COLA) was reduced to zero.

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

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

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

Changes in Assumptions – STRS

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

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

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

Educational Service Center of Medina County
Medina County
124 West Washington Street
Medina, Ohio 44256

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Medina County, Medina County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated November 13, 2020 wherein we noted the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

November 13, 2020

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	**Finding for Recovery-Paid Under Audit:** An employee was compensated for an additional 24 hours which she did not work, resulting in an overpayment of $529.	Fully Corrected	The finding is no longer valid.

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OHIO AUDITOR OF STATE
KEITH FABER

EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY

MEDINA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 12/1/2020

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