

WARREN COUNTY EDUCATIONAL SERVICE CENTER



Basic Financial Statements

June 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

Members of the Board
Warren County Educational Services Center
1879 Deerfield Road
Lebanon, Ohio 45036

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

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

May 5, 2020

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INDEPENDENT AUDITOR'S REPORT

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

As discussed in Note 16 to the financial statements, during the year ended June 30, 2018, the Center adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

As discussed in Note 17 to the financial statements, during 2020, the financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Organization. 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 that the management's discussion and analysis, pension information and other postemployment benefit information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2020, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
May 1, 2020

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net Position of governmental activities increased \$14,302,198 which represents a 63% increase from 2017.
- General revenues accounted for \$2,056,624 in revenue or 7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$26,124,233 or 93% of total revenues of \$28,180,857.
- The Center had \$13,878,659 in expenses related to governmental activities; These expenses were offset by \$26,124,233 in program specific charges for services, grants or contributions. General revenues of \$2,056,624 can also be used to provide for these programs if needed.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2018?" The Government-wide Financial Statements answer this question. These statements include *all assets and outflows of resources*, and *liabilities and inflows of resources* 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.

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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

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

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

Fund Financial Statements

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

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

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

The Center as a Whole

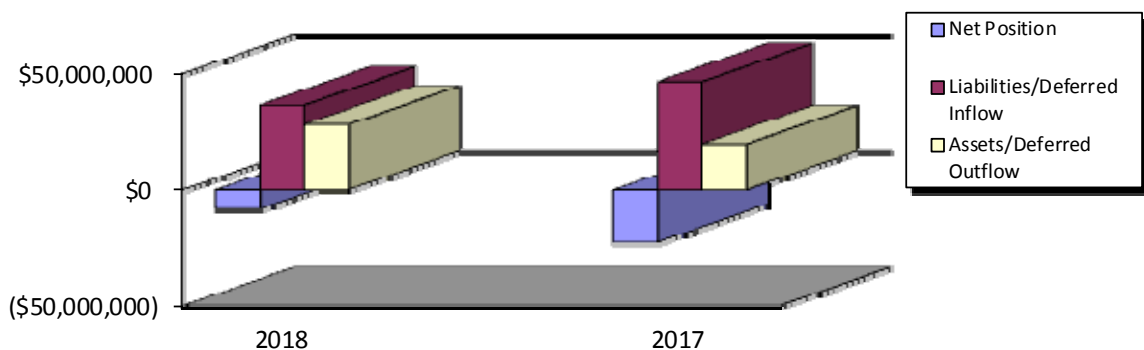
As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2018 compared to 2017:

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

**Table 1
Net Position**

	Governmental Activities	
	2018	2017-Restated
Assets:		
Current and Other Assets	\$15,047,715	\$12,094,797
Capital Assets	3,257,381	3,286,120
Total Assets	18,305,096	15,380,917
Deferred Outflows of Resources:		
Pension	9,598,299	8,580,771
OPEB	254,523	4,064
Total Deferred Outflows of Resources	9,852,822	8,584,835
Liabilities:		
Other Liabilities	2,033,317	1,876,875
Long-Term Liabilities	31,683,691	42,697,227
Total Liabilities	33,717,008	44,574,102
Deferred Inflows of Resources:		
Pension	2,118,697	1,974,146
OPEB	602,511	0
Total Deferred Inflows of Resources	2,721,208	1,974,146
Net Position:		
Net Investment in Capital Assets	3,257,381	3,286,120
Restricted	760,356	550,061
Unrestricted	(12,298,035)	(26,418,677)
Total Net Position	(\$8,280,298)	(\$22,582,496)



**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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

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

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

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

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

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

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

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

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

As a result of implementing GASB 75, the Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from (\$16,240,151) to (\$22,582,496).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the Center's assets and deferred outflows of resources were exceeded by liabilities and deferred inflows of resources by \$8,280,298.

At year-end, capital assets represented 18% of total assets. Capital assets include land, construction in progress, buildings and improvements, and equipment. Net investment in capital assets at June 30, 2018, was \$3,257,381. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, \$760,356 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

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

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

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

**Table 2
Changes in Net Position**

	Governmental Activities	
	2018	2017
Revenues:		
Program Revenues		
Charges for Services	\$24,723,696	\$18,211,895
Operating Grants and Contributions	1,400,537	976,070
General Revenues:		
Grants and Entitlements	841,414	871,881
Other	1,215,210	704,819
Total Revenues	<u>28,180,857</u>	<u>20,764,665</u>
Program Expenses:		
Instruction	7,196,717	7,623,341
Support Services:		
Pupil and Instructional Staff	4,848,863	9,777,491
School Administrative, General Administration, Fiscal and Business	624,851	3,167,675
Operations and Maintenance	663,177	357,356
Pupil Transportation	36,307	250,355
Central	468,732	565,133
Operation of Non-Instructional Services	40,012	16,786
Total Program Expenses	<u>13,878,659</u>	<u>21,758,137</u>
Change in Net Position	14,302,198	(993,472)
Net Position - Beginning of Year, Restated	<u>(22,582,496)</u>	<u>N/A</u>
Net Position - End of Year	<u><u>(\$8,280,298)</u></u>	<u><u>(\$22,582,496)</u></u>

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 \$4,064 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 \$1,030,981. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

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**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

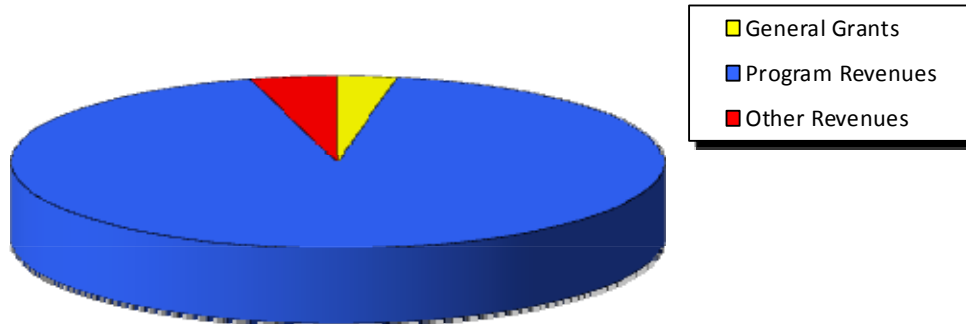
Total 2018 operating expenses under GASB 75	\$13,878,659
Negative OPEB expense under GASB 75	1,030,981
2018 contractually required contribution	14,703
Adjusted 2018 operating expenses	14,924,343
Total 2017 operating expenses under GASB 45	(21,758,137)
Change in operating expenses not related to OPEB	(\$6,833,794)

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

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

**Governmental Activities
Revenue Sources**

	2018	Percentage
General Grants	\$841,414	3.0%
Program Revenues	26,124,233	92.7%
Other Revenues	1,215,210	4.3%
Total Revenue Sources	\$28,180,857	100.0%



Instruction comprises 52% of governmental program expenses. Support services expenses were 48% of governmental program expenses. All other expenses including interest and fiscal charges were less than 1%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Total revenues increased primarily due to an increase in charges for services, operating grants and contributions, and other revenue. Overall expenses for the current fiscal year decreased when compared to 2017 primarily due to changes related to net pension liability and other post employment benefits liability.

Governmental Activities

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$7,196,717	\$7,623,341	\$2,842,015	(\$634,318)
Support Services:				
Pupil and Instructional Staff	4,848,863	9,777,491	6,824,123	(2,042,132)
School Administrative, General				
Administration, Fiscal and Business	624,851	3,167,675	1,955,965	(254,465)
Operations and Maintenance	663,177	357,356	62,219	361,724
Pupil Transportation	36,307	250,355	231,057	(11,479)
Central	468,732	565,133	326,277	13,614
Operation of Non-Instructional Services	40,012	16,786	(8,473)	(8,848)
Extracurricular Activities	0	0	12,391	5,732
Total Expenses	<u>\$13,878,659</u>	<u>\$21,758,137</u>	<u>\$12,245,574</u>	<u>(\$2,570,172)</u>

The Center's Major Funds

The Center has two major governmental funds: the General Fund and Miscellaneous Federal Grants Fund. Assets of these funds comprised \$ 14,489,971 (96%) of the total \$15,151,121 governmental fund assets.

General Fund: Fund balance at June 30, 2018 was \$12,171,371, including \$11,482,984 of unassigned balance. Fund balance increased \$2,575,099 from 2017. The primary reason for the increase in the fund balance was due to an increase in charges for services.

Miscellaneous Federal Grants Fund: Fund balance at June 30, 2018 was \$(9,244). Fund balance increased \$23,848 from 2017. The primary reason for the increase in the fund balance was due to an increase in intergovernmental revenue.

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2018, the Center had \$3,257,381 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2018 balances compared to 2017:

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

	Governmental Activities	
	2018	2017
Land	\$202,980	\$202,980
Construction in Progress	54,266	0
Buildings and Improvements	2,412,559	2,623,457
Equipment	587,576	459,683
Total Net Capital Assets	<u>\$3,257,381</u>	<u>\$3,286,120</u>

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

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

Debt

At June 30, 2018, the Center had no general obligation debt outstanding.

For the Future

Warren County Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation. Therefore, in the long-term, the current program and staffing levels will be dependent on increased funding to meet inflation. Careful financial planning has permitted the Educational Service Center to provide a quality education for the students of Warren County.

All other income is derived from direct invoicing for services and grants. In the spring of 2002, the Ohio Supreme Court issued its fourth split decision regarding the State's school funding plan. The majority opinion identified aspects of the current plan that require modification if the plan is to be considered constitutional. However, in December of 2002, the Court again ruled in a split decision that the State's plan was not acceptable. The Ohio Supreme Court had two new Justices beginning in calendar year 2003 and another in calendar year 2006 and the new court may be called upon to address the issue. At this time, there can be no reasonable estimate of the decision or its impact on school funding and as of the date of these financial statements, the Center is unable to determine what effect, if any, this decision will have on its future State funding and on its financial statements.

**Warren County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018
(Unaudited)**

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact the Treasurer of Warren County Educational Service Center, 1879 Deerfield Road, Lebanon, Ohio 45036.

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

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$13,113,501
Receivables:	
Accounts	1,459,585
Intergovernmental	453,960
Prepaid	20,669
Nondepreciable Capital Assets	257,246
Depreciable Capital Assets, Net	<u>3,000,135</u>
 Total Assets	 <u>18,305,096</u>
 Deferred Outflows of Resources:	
Pension	9,598,299
OPEB	<u>254,523</u>
 Total Deferred Outflows of Resources	 <u>9,852,822</u>
 Liabilities:	
Accounts Payable	20,404
Accrued Wages and Benefits	2,012,913
Long-Term Liabilities:	
Due Within One Year	131,799
Due In More Than One Year:	
Net Pension Liability	25,086,954
Net OPEB Liability	4,948,673
Other Amounts	<u>1,516,265</u>
 Total Liabilities	 <u>33,717,008</u>
 Deferred Inflows of Resources:	
OPEB	602,511
Pension	<u>2,118,697</u>
 Total Deferred Inflows of Resources	 <u>2,721,208</u>
 Net Position:	
Net Investment in Capital Assets	3,257,381
Restricted for:	
State Grants	204,767
Other Federal Grants	246,994
Other Grants	308,595
Unrestricted	<u>(12,298,035)</u>
 Total Net Position	 <u>(\$8,280,298)</u>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$5,051,452	\$5,477,142	\$168,892	\$594,582
Special	2,077,418	4,288,768	0	2,211,350
Adult/Continuing	67,847	103,930	0	36,083
Support Services:				
Pupil	4,552,537	10,567,745	557,860	6,573,068
Instructional Staff	296,326	34,140	513,241	251,055
General Administration	34,389	40,428	0	6,039
School Administration	253,953	1,651,956	1,552	1,399,555
Fiscal	296,839	800,742	45,126	549,029
Business	39,670	41,012	0	1,342
Operations and Maintenance	663,177	725,396	0	62,219
Pupil Transportation	36,307	162,498	104,866	231,057
Central	468,732	786,009	9,000	326,277
Operation of Non-Instructional Services	40,012	31,539	0	(8,473)
Extracurricular Activities	0	12,391	0	12,391
Totals	\$13,878,659	\$24,723,696	\$1,400,537	12,245,574

General Revenues:	
Grants and Entitlements, Not Restricted	841,414
Investment Earnings	105,777
Other Revenues	1,109,433
Total General Revenues	2,056,624
Change in Net Position	14,302,198
Net Position - Beginning of Year, Restated	(22,582,496)
Net Position - End of Year	(\$8,280,298)

See accompanying notes to the basic financial statements.

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

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$12,580,859	\$0	\$532,642	\$13,113,501
Receivables:				
Accounts	1,457,371	605	1,609	1,459,585
Intergovernmental	0	327,304	126,656	453,960
Interfund	103,406	0	0	103,406
Prepaid	20,059	367	243	20,669
Total Assets	14,161,695	328,276	661,150	15,151,121
Liabilities:				
Accounts Payable	17,626	1,706	1,072	20,404
Accrued Wages and Benefits	1,953,524	35,749	23,640	2,012,913
Compensated Absences	19,174	0	8,630	27,804
Interfund Payable	0	97,250	6,156	103,406
Total Liabilities	1,990,324	134,705	39,498	2,164,527
Deferred Inflows of Resources:				
Grants	0	202,815	110,499	313,314
Total Deferred Inflows of Resources	0	202,815	110,499	313,314
Fund Balances:				
Nonspendable	20,059	367	243	20,669
Restricted	0	0	510,067	510,067
Committed	90,111	0	15,295	105,406
Assigned	578,217	0	0	578,217
Unassigned	11,482,984	(9,611)	(14,452)	11,458,921
Total Fund Balances	12,171,371	(9,244)	511,153	12,673,280
Total Liabilities, Deferred Inflows and Fund Balances	\$14,161,695	\$328,276	\$661,150	\$15,151,121

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balance		\$12,673,280
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		3,257,381
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Intergovernmental		313,314
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(1,620,260)
Deferred outflows and inflows or resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	9,598,299	
Deferred inflows of resources related to pensions	(2,118,697)	
Deferred outflows of resources related to OPEB	254,523	
Deferred inflows of resources related to OPEB	(602,511)	
		7,131,614
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability	(25,086,954)	
Net OPEB Liability	(4,948,673)	
		(30,035,627)
Net Position of Governmental Activities		<u>(\$8,280,298)</u>

See accompanying notes to the basic financial statements.

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

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and Fees	\$278,695	\$0	\$0	\$278,695
Investment Earnings	105,777	0	0	105,777
Intergovernmental	841,415	879,521	371,992	2,092,928
Extracurricular Activities	12,391	0	0	12,391
Charges for Services	24,329,371	0	91,038	24,420,409
Other Revenues	993,113	0	128,520	1,121,633
Total Revenues	26,560,762	879,521	591,550	28,031,833
Expenditures:				
Current:				
Instruction:				
Regular	5,480,271	0	83,004	5,563,275
Special	4,213,033	0	0	4,213,033
Adult/Continuing	69,611	0	29,020	98,631
Support Services:				
Pupil	10,120,490	362,884	287,589	10,770,963
Instructional Staff	72,889	465,157	0	538,046
General Administration	39,079	0	0	39,079
School Administration	1,504,163	0	500	1,504,663
Fiscal	773,330	27,632	8,953	809,915
Business	39,670	0	0	39,670
Operations and Maintenance	782,172	0	0	782,172
Pupil Transportation	70,425	0	137,734	208,159
Central	787,991	0	9,000	796,991
Operation of Non-Instructional Services	30,507	0	9,505	40,012
Total Expenditures	23,983,631	855,673	565,305	25,404,609
Excess of Revenues Over (Under) Expenditures	2,577,131	23,848	26,245	2,627,224
Other Financing Sources (Uses):				
Transfers In	0	0	2,032	2,032
Transfers (Out)	(2,032)	0	0	(2,032)
Total Other Financing Sources (Uses)	(2,032)	0	2,032	0
Net Change in Fund Balance	2,575,099	23,848	28,277	2,627,224
Fund Balance - Beginning of Year	9,596,272	(33,092)	482,876	10,046,056
Fund Balance - End of Year	\$12,171,371	(\$9,244)	\$511,153	\$12,673,280

See accompanying notes to the basic financial statements.

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

Net Change in Fund Balance - Total Governmental Funds \$2,627,224

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	259,537	
Depreciation Expense	<u>(139,276)</u>	120,261

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (149,000)

Governmental funds report center pension and OPEB contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.

Center pension contributions	1,908,235	
Cost of benefits earned net of employee contributions - Pensions	8,706,488	
Center OPEB contributions	14,703	
Cost of benefits earned net of employee contributions - OPEB	<u>1,030,981</u>	11,660,407

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Intergovernmental	149,024
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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	<u>(105,718)</u>
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Change in Net Position of Governmental Activities	<u>\$14,302,198</u>
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See accompanying notes to the basic financial statements.

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

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$22,463</u>
Total Assets	<u>22,463</u>
Liabilities:	
Other Liabilities	<u>22,463</u>
Total Liabilities	<u>\$22,463</u>

See accompanying notes to the basic financial statements.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Note 1 - Description of the Center

The Warren County Educational Service Center (the "Center") is located in Lebanon, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Carlisle, Kings, Little Miami and Wayne Local School Districts, as well as the Springboro, Lebanon, Franklin, Mason and Middletown City School Districts. Other school districts outside Warren County are served on an individual contract basis for various services. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Warren County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Center is staffed by 99 classified, 161 certified, and two administrative employees providing educational service to school districts.

Reporting Entity

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

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

During fiscal year 2018, the Center was the fiscal agent for the Warren County Family and Children First Council (the FCFC). The FCFC is a separate agency which provides services to qualified Warren County families. The Center maintains Council funds in a separate Agency Fund.

As of June 30, 2018, the Center served as fiscal agent for charter schools established under chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of the Center.

The Center is associated with three jointly governed organizations and two insurance purchasing pools. These organizations are:

Jointly Governed Organizations:

- Southwest Ohio Computer Association (SWOCA)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwest Ohio Council of Governments

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan

Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation GRP

Information about these organizations is presented in Notes 10 and 14 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Fund Accounting

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

Governmental Funds

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

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

Miscellaneous Federal Grant Fund – A fund used to account for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

Fiduciary Funds

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

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 of resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within

Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of fiscal year end.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to pension and OPEB are reported on the governmental-wide statement of net position. For more pension and OPEB related information, see Notes 7 and 8.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include grants, OPEB, and pension. These amounts are deferred and recognized as inflows of resources in the period the amounts become available. Grants have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. For more pension and OPEB information, see Notes 7 and 8.

Expenses/Expenditures

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

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Equity in Pooled Cash and Investments

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

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

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 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 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 \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

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

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

Prepaid Items

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

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Center maintains a capitalization threshold of \$1,500. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Equipment	5 - 20 years

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from Board Policy and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation days may not be carried over. All full-time certificated and classified employees are entitled to three days personal leave per year, which does not accumulate from one year to the next. Teachers do not earn vacation time. Eleven and twelve month certified staff earn two weeks to four weeks, respectively.

Teachers, administrators and classified employees earn sick leave at the rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 200 days. Upon retirement, payment is made for 30 percent of the first 200 days of total sick leave accumulation (a maximum of 60 days).

Health Care Benefits

The Center provides life insurance and accidental death and dismemberment insurance to full-time employees and other employees per Board policy through UnumProvident.

Medical and surgical benefits are provided through Anthem Blue Cross and Blue Shield through the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan.

The Center provides dental insurance to full-time employees through Delta Dental.

Pensions/Other Postemployment Benefits (OPEB)

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

Net Position

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$760,356 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

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

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

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

Fund Balance

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

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

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

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

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

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

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Estimates

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

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

- (1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
- (2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.
- (3) No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
- (4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.
- (5) Bonds, and other obligations of the State of Ohio.
- (6) The Ohio State Treasurer's investment pool (STAR Ohio).

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

- (7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.
- (8) Under limited circumstances, corporate debt interests in either of the two highest rating classifications by at least two nationally recognized rating agencies.

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2018, \$5,480,081 of the Center's bank balance of \$8,304,539 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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

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**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Investments

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

	Fair Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
STAR Ohio	\$5,242,608	N/A	0.12
Portfolio Weighted Average Maturity			0.12

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Center's recurring fair value measurements as of June 30, 2018. STAR Ohio is reported at its share price (Net Asset Value per share).

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

Credit Risk – It is the Center's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The Center's investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of Credit Risk – The Center places no limit on the amount it may invest in any one issuer. 100% of the Center's investments at fiscal year end were in STAR Ohio.

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

Note 4 – Receivables

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

Note 5 - Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, Not Being Depreciated</i>				
Land	\$202,980	\$0	\$0	\$202,980
Construction in Progress	0	54,266	0	54,266
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	3,012,281	0	149,000	2,863,281
Equipment	1,010,068	205,271	0	1,215,339
Totals at Historical Cost	<u>4,225,329</u>	<u>259,537</u>	<u>149,000</u>	<u>4,335,866</u>
Less Accumulated Depreciation:				
Buildings and Improvements	388,824	61,898	0	450,722
Equipment	550,385	77,378	0	627,763
Total Accumulated Depreciation	<u>939,209</u>	<u>139,276</u>	<u>0</u>	<u>1,078,485</u>
Governmental Activities Capital Assets, Net	<u>\$3,286,120</u>	<u>\$120,261</u>	<u>\$149,000</u>	<u>\$3,257,381</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$24,252
Special	15,697
Other Instruction	10,396
Support Services:	
Pupil	4,208
Instructional Staff	203
School Administration	65,038
Fiscal	2,027
Operations and Maintenance	5,928
Pupil Transportation	762
Central	10,765
Total Depreciation Expense	<u>\$139,276</u>

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Notes to the Basic Financial Statements
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Note 6 - Long-Term Liabilities

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Compensated Absences	\$1,522,118	\$192,299	\$66,353	\$1,648,064	\$131,799
Net Pension Liability:					
STRS	30,881,185	0	9,109,009	21,772,176	0
SERS	3,947,515	0	632,737	3,314,778	0
Total Net Pension Liability	34,828,700	0	9,741,746	25,086,954	0
Net OPEB Liability:					
STRS	4,933,928	0	1,357,997	3,575,931	0
SERS	1,412,481	0	39,739	1,372,742	0
Total Net OPEB Liability	6,346,409	0	1,397,736	4,948,673	0
Total Long-Term Obligations	<u>\$42,697,227</u>	<u>\$192,299</u>	<u>\$11,205,835</u>	<u>\$31,683,691</u>	<u>\$131,799</u>

Compensated Absences will be paid from the fund from which the person is paid. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the fund benefitting from their service.

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form

**Warren County Educational Service Center
Notes to the Basic Financial Statements
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of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The contractually required contribution to SERS was \$260,486 for fiscal year 2018. Of this amount \$5,055 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

**Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018**

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least 10 years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

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

The contractually required contribution to STRS was \$1,647,749 for fiscal year 2018. Of this amount \$141,701 is reported as accrued wages and benefits.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,314,778	\$21,772,176	\$25,086,954
Proportion of the Net Pension Liability:			
Current Measurement Date	0.05547950%	0.09165220%	
Prior Measurement Date	<u>0.05393460%</u>	<u>0.09225700%</u>	
Change in Proportionate Share	0.00154490%	-0.00060480%	
Pension Expense	(\$1,019,145)	(\$7,687,343)	(\$8,706,488)

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

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Notes to the Basic Financial Statements
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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$142,657	\$840,739	\$983,396
Changes of assumptions	171,410	4,761,814	4,933,224
Changes in employer proportionate share of net pension liability	69,493	1,703,951	1,773,444
Contributions subsequent to the measurement date	<u>260,486</u>	<u>1,647,749</u>	<u>1,908,235</u>
Total Deferred Outflows of Resources	<u>\$644,046</u>	<u>\$8,954,253</u>	<u>\$9,598,299</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$175,475	\$175,475
Net difference between projected and actual earnings on pension plan investments	15,735	718,507	734,242
Changes in employer proportionate share of net pension liability	<u>1,067,014</u>	<u>141,966</u>	<u>1,208,980</u>
Total Deferred Inflows of Resources	<u>\$1,082,749</u>	<u>\$1,035,948</u>	<u>\$2,118,697</u>

\$1,908,235 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	(\$753,538)	\$1,662,431	\$908,893
2020	62,638	2,907,759	2,970,397
2021	68,985	1,320,018	1,389,003
2022	<u>(77,274)</u>	<u>380,348</u>	<u>303,074</u>
Total	<u>(\$699,189)</u>	<u>\$6,270,556</u>	<u>\$5,571,367</u>

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
Actuarial Assumptions Experience Study Date	5 year period ended June 30, 2015

Prior to 2017, an assumption of 3.0% was used for COLA or Ad Hoc COLA.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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	<u>100.00%</u>	

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Notes to the Basic Financial Statements
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Discount Rate

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

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower 6.50%, or one percentage point higher 8.50% than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$4,600,050	\$3,314,778	\$2,238,100

Changes in Benefit Terms

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

Actuarial Assumptions - STRS

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

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	July 1, 2017	July 1, 2016
Inflation	2.50%	2.75%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.45%, net of investment expenses, including inflation	7.75%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.50%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1 2013, or later, 2% COLA commences on fifth anniversary of retirement date.

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

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

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

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

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	<u>100.00%</u>	

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

Discount Rate

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

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

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

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$31,209,674	\$21,772,176	\$13,822,499

Changes in Assumptions

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

Changes in Benefit Terms

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

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Note 8 – Defined Benefit Other Postemployment Benefits (OPEB) Plans

Net Other Postemployment Benefits (OPEB) Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, 0.5% of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was \$23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the surcharge obligation was \$5,055.

The surcharge, added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contractually required contribution to SERS was \$14,703 for fiscal year 2018. Of this amount \$5,055 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$1,372,742	\$3,575,931	\$4,948,673
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.05115040%	0.09165220%	
Prior Measurement Date	0.04955430%	0.09225700%	
Change in Proportionate Share	<u>0.00159610%</u>	<u>-0.00060480%</u>	
OPEB Expense	\$64,821	(\$1,095,802)	(\$1,030,981)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$0	\$206,425	\$206,425
Changes in employer proportionate share of net OPEB expense	33,395	0	33,395
Contributions subsequent to the measurement date	<u>14,703</u>	<u>0</u>	<u>14,703</u>
Total Deferred Outflows of Resources	<u>\$48,098</u>	<u>\$206,425</u>	<u>\$254,523</u>
Deferred Inflows of Resources			
Changes of assumptions	\$130,266	\$288,052	\$418,318
Net difference between projected and actual earnings on OPEB plan investments	3,625	152,844	156,469
Changes in employer proportionate share of net OPEB liability	<u>0</u>	<u>27,724</u>	<u>27,724</u>
Total Deferred Inflows of Resources	<u>\$133,891</u>	<u>\$468,620</u>	<u>\$602,511</u>

\$14,703 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year			
Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2019	(\$36,005)	(\$56,436)	(\$92,441)
2020	(36,005)	(56,436)	(92,441)
2021	(27,581)	(56,436)	(84,017)
2022	(906)	(56,436)	(57,342)
2023	0	(18,225)	(18,225)
Thereafter	<u>0</u>	<u>(18,225)</u>	<u>(18,225)</u>
Total	<u>(\$100,497)</u>	<u>(\$262,194)</u>	<u>(\$362,691)</u>

**Warren County Educational Service Center
Notes to the Basic Financial Statements
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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%
Future Salary Increases, including inflation	3.50% to 18.20%
Investment Rate of Return	7.50% net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.56%
Prior Measurement Date	2.92%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.63%
Prior Measurement Date	2.98%
Medical Trend Assumption	
Medicare	5.50% to 5.00%
Pre-Medicare	7.50% to 5.00%

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

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

Warren County Educational Service Center
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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.

**Warren County Educational Service Center
Notes to the Basic Financial Statements
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Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.63%) and higher (4.63%) than the current discount rate (3.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.5% decreasing to 4.0%) and higher (8.5% decreasing to 6.0%) than the current rate.

	1% Decrease 2.63%	Current Discount Rate 3.63%	1% Increase 4.63%
Proportionate share of the net OPEB liability	\$1,657,761	\$1,372,742	\$1,146,935
	1% Decrease 6.50% decreasing to 4.00%	Current Trend Rate 7.50% decreasing to 5.00%	1% Increase 8.50% decreasing to 6.00%
Proportionate share of the net OPEB liability	\$1,113,878	\$1,372,742	\$1,715,354

Changes in Assumptions – SERS

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

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Actuarial Assumptions - STRS

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

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0.00%, effective July 1, 2017
Blended Discount Rate of Return	4.13%
Health Care Cost Trends	6.00% to 11.00% initial, 4.5% ultimate

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

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

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

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

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

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

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

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

Discount Rate

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

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate

The following table represents the net OPEB liability as of June 30, 2017, calculated using the current period discount rate assumption of 4.13%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.13%) or one percentage point higher (5.13%) than the current assumption. Also shown is the net OPEB liability as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease 3.13%	Current Discount Rate 4.13%	1% Increase 5.13%
Proportionate share of the net OPEB liability	\$4,800,630	\$3,575,931	\$2,608,018
	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB liability	\$2,484,403	\$3,575,931	\$5,012,508

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Changes in Assumptions – STRS

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

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

Note 9 - Contingent Liabilities

Grants

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

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

Litigation

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

Note 10 - Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2018, the Center contracted with Governmental Underwriters of America for property. Coverages provided are as follows:

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Building and Contents (\$1,000 deductible)	\$4,512,322
Automobile Liability (\$1,000 deductible)	1,000,000
Uninsured Motorists Liability (\$1,000 deductible)	1,000,000
<i>General Liability:</i> Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Fire Damage Limit - Any One Event	500,000
<i>Employee Benefits Liability:</i> Each Occurrence	1,000,000
Aggregate Limit	3,000,000
<i>Employer's Liability:</i> Each Occurrence	1,000,000
Disease - Each Employee	1,000,000
Disease - Policy Limit	1,000,000
<i>Excess Liability – Umbrella Form</i> Each Occurrence	5,000,000
Aggregate Limit	5,000,000

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

For fiscal year 2018, the Center also participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool. The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts/centers is calculated and a premium rate is applied to all school districts/centers in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts/centers that can meet the MBP's selection criteria.

For fiscal year 2018, the Center also participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts/centers is calculated as one experience and a common premium rate is applied to all school districts/centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute

**Warren County Educational Service Center
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to the “Equity Pooling Fund.” This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts/centers that can meet the GRP’s selection criteria. The firm of Hunter Consulting, Inc. provides administrative, cost control and actuarial services to the GRP.

Note 11 - State Funding

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

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district’s portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district’s resources provided under the State’s Foundation Program. The Department of Education’s portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by \$35 multiplied by a proration factor. This amount is provided from State resources.

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

Note 12 – Accountability

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

<u>Fund</u>	<u>Deficit</u>
Miscellaneous Federal Grants	\$9,244
Other Government Funds:	
Title I Disadvantaged Children	14,331

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

Note 13 - Interfund Transactions

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

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	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$103,406	\$0	\$0	\$2,032
Miscellaneous Federal Grants	0	97,250	0	0
Other Governmental Funds	0	6,156	2,032	0
Total All Funds	<u>\$103,406</u>	<u>\$103,406</u>	<u>\$2,032</u>	<u>\$2,032</u>

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

Note 14 - Jointly Governed Organization

Southwest Ohio Computer Association

The Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public schools and educational service centers within the boundaries of Butler, Preble, and Warren Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member school districts/centers. The governing board of SWOCA consists of the superintendent (or the superintendent's designee) from each member district/center. Financial information can be obtained from the fiscal agent, Butler Tech, 3603 Hamilton-Middletown Road, Hamilton, Ohio 45011.

Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of 129 school districts, boards of developmental disabilities, and educational service centers in 18 counties. The purpose of the cooperative is to obtain reduced prices for quality merchandise and services commonly used by schools which includes medical insurance, dental insurance, life insurance, and workers compensation. All member districts/centers are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district/center has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts/centers by the fiscal agent. Any district/center withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Cooperative, the Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377-1171.

**Warren County Educational Service Center
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Southwest Ohio Council of Governments

The Southwest Ohio Council of Governments (Council) was created pursuant to chapter 167 of the Ohio Revised Code by agreement of its members. The Council was formed in 2012 by the Center and the Warren County Board of Commissioners. The Council's purpose is to provide substitute teaching services for school districts in Warren and Butler Counties.

The Center serves as the Fiscal Officer for the Council. The Council's funds are maintained separately from the Center's funds.

Note 15 –Fund Balances

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

Fund Balances	General	Miscellaneous Federal Grants	Other Governmental Funds	Total
Nonspendable:				
Prepays	\$20,059	\$367	\$243	\$20,669
Total Nonspendable	<u>20,059</u>	<u>367</u>	<u>243</u>	<u>20,669</u>
Restricted for:				
School Bus Driver Training	0	0	147,763	147,763
Other Grants	0	0	294,346	294,346
Miscellaneous State Grants	0	0	67,958	67,958
Total Restricted	<u>0</u>	<u>0</u>	<u>510,067</u>	<u>510,067</u>
Committed to:				
Termination Benefits	90,111	0	0	90,111
WCESC Scholarship	0	0	15,295	15,295
Total Committed	<u>90,111</u>	<u>0</u>	<u>15,295</u>	<u>105,406</u>
Assigned to:				
Public School	100,879	0	0	100,879
Encumbrances	477,338	0	0	477,338
Total Assigned	<u>578,217</u>	<u>0</u>	<u>0</u>	<u>578,217</u>
Unassigned (Deficit)	<u>11,482,984</u>	<u>(9,611)</u>	<u>(14,452)</u>	<u>11,458,921</u>
Total Fund Balance	<u>\$12,171,371</u>	<u>(\$9,244)</u>	<u>\$511,153</u>	<u>\$12,673,280</u>

Warren County Educational Service Center
Notes to the Basic Financial Statements
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Note 16 – Implementation of New Accounting Principles and Restatement of Net Position

For the fiscal year ended June 30, 2018, the Center has implemented GASB Statement No. 81, Irrevocable Split-Interest Agreements, GASB Statement No. 82, Pensions Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, and GASB No. 86, Certain Debt Extinguishment Issues, and GASB Statement No. 85, Omnibus 2017, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions, and related guidance from (GASB) Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits other Than Pensions (and Certain Issues Related to OPEB Plan Reporting).

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

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

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

Warren County Educational Service Center
Notes to the Basic Financial Statements
For The Fiscal Year Ended June 30, 2018

in substance. In subsequent periods, governments should disclose the amount of debt defeased in substance that remains outstanding for which that risk of substitution exists. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Center.

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

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

Net position June 30, 2017	(\$16,240,151)
Adjustments:	
Net OPEB Liability	(6,346,409)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>4,064</u>
Restated Net Position June 30, 2017	<u><u>(\$22,582,496)</u></u>

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

Note 17 – Subsequent Events

The Center has evaluated subsequent events through the date of the "Independent Auditors Report," the date on which the combined financial statements were available to be issued.

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the Center.

In addition, the Center's investment portfolio has incurred a significant decline in fair value, in 2020, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2018	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.09165220%	0.09225696%	0.08753436%	0.07966238%	0.07966238%
Center's Proportionate Share of the Net Pension Liability	\$21,772,176	\$30,881,185	\$24,191,935	\$19,376,648	\$23,019,178
Center's Covered-Employee Payroll	\$10,418,129	\$10,083,786	\$9,231,729	\$8,765,392	\$8,691,446
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	208.98%	306.25%	262.05%	221.06%	264.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.05547950%	0.05393460%	0.05849290%	0.11762300%	0.11762300%
Center's Proportionate Share of the Net Pension Liability	\$3,314,778	\$3,947,515	\$3,337,662	\$5,952,833	\$6,996,760
Center's Covered-Employee Payroll	\$1,758,393	\$1,681,921	\$2,096,305	\$3,452,417	\$4,423,873
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	188.51%	234.70%	159.22%	172.43%	158.16%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$1,647,749	\$1,458,538	\$1,411,730	\$1,292,442	\$1,139,501	\$1,129,888	\$1,126,556	\$1,099,002	\$1,074,347	\$990,585
Contributions in Relation to the Contractually Required Contribution	(1,647,749)	(1,458,538)	(1,411,730)	(1,292,442)	(1,139,501)	(1,129,888)	(1,126,556)	(1,099,002)	(1,074,347)	(990,585)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Center Covered-Employee Payroll	\$11,769,636	\$10,418,129	\$10,083,786	\$9,231,729	\$8,765,392	\$8,691,446	\$8,665,815	\$8,453,862	\$8,264,208	\$7,619,885
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually Required Contribution	\$260,486	\$246,175	\$235,469	\$276,293	\$478,505	\$612,264	\$576,842	\$586,569	\$568,209	\$568,131
Contributions in Relation to the Contractually Required Contribution	(260,486)	(246,175)	(235,469)	(276,293)	(478,505)	(612,264)	(576,842)	(586,569)	(568,209)	(568,131)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Center Covered-Employee Payroll	\$1,929,526	\$1,758,393	\$1,681,921	\$2,096,305	\$3,452,417	\$4,423,873	\$4,288,788	\$4,666,420	\$4,196,521	\$5,773,689
Contributions as a Percentage of Covered-Employee Payroll	13.50%	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%

See accompanying notes to the required supplementary information.

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

	2018	2017
Center's Proportion of the Net OPEB Liability	0.09165220%	0.09225700%
Center's Proportionate Share of the Net OPEB Liability	\$3,575,931	\$4,933,928
Center's Covered-Employee Payroll	\$10,418,129	\$10,083,786
Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	34.32%	48.93%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017
Center's Proportion of the Net OPEB Liability	0.05115040%	0.04955430%
Center's Proportionate Share of the Net OPEB Liability	\$1,372,742	\$1,412,481
Center's Covered-Employee Payroll	\$1,758,393	\$1,681,921
Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	78.07%	83.98%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) - The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016
Contractually Required Contribution to OPEB	\$0	\$0	\$0
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Center Covered-Employee Payroll	\$11,769,636	\$10,418,129	\$10,083,786
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.00%	0.00%	0.00%

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

See accompanying notes to the required supplementary information.

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually Required Contribution to OPEB (2)	\$14,703	\$4,064	\$3,182
Contributions to OPEB in Relation to the Contractually Required Contribution	<u>(14,703)</u>	<u>(4,064)</u>	<u>(3,182)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Center Covered-Employee Payroll	\$1,929,526	\$1,758,393	\$1,681,921
Contributions to OPEB as a Percentage of Covered-Employee Payroll	0.76%	0.23%	0.19%

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

(2) - Includes Surcharge.

See accompanying notes to the required supplementary information.

Warren County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2018

Note 1 - SERS Change in Assumptions-Net Pension Liability

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

Note 2 - STRS Change in Assumptions and Benefit Terms-Net Pension Liability

Changes in Assumptions

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

Changes in Benefit Terms

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

Note 3 - SERS Change in Assumptions-Net OPEB Liability

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

Municipal Bond Index Rate:

Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent

Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Note 4 - STRS Change in Assumptions-Net OPEB Liability

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

Warren County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2018

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

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WARREN COUNTY EDUCATIONAL SERVICE CENTER



Single Audit Report

June 30, 2018

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Ohio Department of Education:			
Title I Grants to Local Educational Agencies	3M00	84.010	\$76,870
Passed Through Family and Children First Council, Warren County:			
Special Education - Grants for Infants and Families	FCFC1	84.181	<u>194,935</u>
Total Department of Education			<u>271,805</u>
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>			
Passed Through Ohio Department of Education:			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	3GQ0	93.243	475,852
Passed Through Warren County Department of Job and Family Services, Division of Human Services:			
TANF Cluster			
Temporary Assistance for Needy Families	1601OHTANF	93.558	<u>397,029</u>
Total TANF Cluster			<u>397,029</u>
Total Department of Health & Human Services			<u>872,881</u>
Total Federal Assistance			<u><u>\$1,144,686</u></u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the Center's federal award programs. The schedule has been prepared using the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Center did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren County Educational Service Center (the Center), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated May 1, 2020, wherein we noted the Center adopted GASB No. 75 as disclosed in Note 16.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
May 1, 2020

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

Warren County Educational Service Center
Warren County
1879 Deerfield Road
Lebanon, Ohio 45036

Report on Compliance for Each Major Federal Program

We have audited the Warren County Educational Service Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2018. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Center, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which Uniform Guidance requires us to report, described in the accompanying schedule of findings as item 2018-001. Our opinion on the major federal program is not modified with respect to this matter.

The Center's response to our noncompliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the Center's response and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2018-001.

The Center's response to our internal control over compliance finding is described in the accompanying schedule of findings and corrective action plan. We did not audit the District's response and, accordingly, we express no opinion on it.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Center, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements. We issued our report thereon dated May 1, 2020, which contained unmodified opinions on those financial statements, wherein we noted the Center adopted GASB No. 75 as disclosed in Note 16. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
May 1, 2020

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**WARREN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS
Year Ended June 30, 2018**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes
- Significant Deficiency(s) identified? None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes

Identification of major federal programs:

Substance Abuse and Mental Health Services Project
of Regional and National Significance CFDA 93.243

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? No

Section II – Findings Related to the Financial Statements Required to be reported in Accordance with GAGAS

None

Section III – Findings for Federal Awards

Schedule of Expenditures of Federal Awards

Finding Number:	2018-001
CFDA Number and Title:	CFDA # 93.558 Temporary Assistance for Needy Families
Federal Award Identification Number / Year:	2018
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Entity:	Warren County Department of Job and Family Services
Repeat Finding from Prior Audit?	No

Noncompliance and Material Weakness

2 CFR 200.510(b) provides that the auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with 2 CFR 200.502 Basis for determining Federal awards expended which states the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs.

The Center did not report CFDA #93.558 Temporary Assistance for Needy Families expenses of \$397,029 on the 2018 Schedule of Expenditures of Federal Awards (SEFA). This omission resulted in the Center not initially appearing to require a Single Audit. Subsequently, the expenditures were added to the SEFA and a Single Audit was performed. The Center, as a result, did not submit the data collection form to the Federal Audit Clearinghouse timely in accordance with 2 CFR 200.512(a).

Failure to accurately prepare the SEFA may result in noncompliance with the Uniform Guidance requirements and/or compromise the Center's ability to obtain federal awards in the future.

We recommend the Center implement procedures to track and readily identify the expenditures of all federal awards and the year in which the activity related to the Federal award occurs. The Center should then use this data to prepare the SEFA accurately each year.

Officials' Response

The Center was under the impression this was a vendor contract and not a grant. This money was properly recorded and expended during the year. We will implement controls to make sure the Schedule of Expenditures of Federal Awards (SEFA) is presented correctly.

**Warren County Educational Service Center
Warren County, Ohio
1879 Deerfield Road
Lebanon, Ohio 45107**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
Year Ended June 30, 2018**

The Warren County Educational Service Center had no prior audit findings or questioned costs.

**Warren County Educational Service Center
Warren County, Ohio
1879 Deerfield Road
Lebanon, Ohio 45107**

**CORRECTIVE ACTION PLAN
2 CFR 200.511(c)
Year Ended June 30, 2018**

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2018-001	The Center was under the impression this was a vendor contract and not a grant. This money was properly recorded and expended during the year. We will implement controls to make sure the Schedule of Expenditures of Federal Awards (SEFA) is presented correctly.	FY2019	Alleyn Unversaw

OHIO AUDITOR OF STATE KEITH FABER



WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 19, 2020**