HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY

REGULAR AUDIT

FOR THE FISCAL YEARS ENDED JUNE 30, 2018-2017

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER
HANCOCK COUNTY
JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

Hancock County Educational Service Center
Hancock County
7746 County Road 140, Suite A
Findlay, Ohio 45840-1978

To the Governing Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund present additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2019, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

March 20, 2019

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

Highlights

Highlights for fiscal year 2018 are as follows:

Net position increased $4,436,100 primarily due to the reduction in the net pension/OPEB liability.

Program specific revenues, in the form of charges for services and operating grants, accounted for $7,275,712, or 99 percent of total revenues.

Using the Basic Financial Statements

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

The statement of net position and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Hancock County Educational Service Center, the General Fund is the most significant fund.

Reporting the Educational Service Center as a Whole

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2018. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Educational Service Center's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include facility conditions, required educational programs, and other factors.

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities, including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major fund is the General Fund.

Governmental Funds - All of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2018 and fiscal year 2017.

Table 1
Net Position

	Governmental Activities		
	2018	2017	Change
Assets			
Current and Other Assets	$1,831,745	$1,660,373	$171,372
Capital Assets, Net	23,900	20,598	3,302
Total Assets	1,855,645	1,680,971	174,674
Deferred Outflows of Resources			
Pension	3,321,922	2,929,896	392,026
OPEB	133,076	23,442	109,634
Total Deferred Outflows of Resources	3,454,998	2,953,338	501,660

(continued)

Table 1
Net Position
(continued)

	Governmental Activities		
	2018	2017	Change
Liabilities			
Current and Other Liabilities	$835,498	$834,894	($604)
Long-Term Liabilities			
Pension	9,977,737	13,641,869	3,664,132
OPEB	2,366,987	2,959,010	592,023
Other Amounts	441,414	445,777	4,363
Total Liabilities	13,621,636	17,881,550	4,259,914
Deferred Inflows of Resources			
Pension	1,097,480	937,514	(159,966)
OPEB	340,182	0	(340,182)
Total Deferred Inflows of Resources	1,437,662	937,514	(500,148)
Net Position			
Net Investment in Capital Assets	23,900	20,598	3,302
Restricted	49,604	23,798	25,806
Unrestricted (Deficit)	(9,822,159)	(14,229,151)	4,406,992
Total Net Position (Deficit)	($9,748,655)	($14,184,755)	$4,436,100

The net pension liability reported by the Educational Service Center at June 30, 2018, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For fiscal year 2018, the Educational Service Center adopted GASB Statement No. 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, end users of these financial statements will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability, and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. Prior accounting for pensions (GASB Statement No. 27) and postemployment benefits (GASB Statement No. 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 or net OPEB liability. GASB Statements No. 68 and No. 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 Statements No. 68 and No. 75 require the net pension liability and the net OPEB liability to equal the Educational Service Center's proportionate share of each plan's collective present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

Most long-term liabilities have set repayment schedules or in the case of compensated absences (i.e. vacation and sick 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 pension benefits, contribution rates, and return on investments affect the balance of these liabilities but are outside the control of the Educational Service Center. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability 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 Statements No. 68 and No. 75, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's change in net pension liability and the net OPEB liability, respectively, not accounted for as deferred outflows/inflows.

As a result of implementing GASB Statement No. 75, the Educational Service Center is reporting a net OPEB liability and deferred outflows/inflows 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 ($11,249,187) to ($14,184,755).

Pension/OPEB related changes noted in the above table reflect an increase in deferred outflows and deferred inflows. The decrease in the net pension/OPEB liability represents the Educational Service Center's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments, and actuarial assumptions all affect the balance of the net pension liability.

Aside from pension related activity, the only change of significance noted in the above table is the increase in current and other assets. This increase was primarily due to an increase in cash and cash equivalents largely in the General Fund which saw increases in tuition revenue and interest revenue.

Table 2 reflects the change in net position for fiscal year 2018 and fiscal year 2017.

Table 2
Change in Net Position

	Governmental Activities		
	2018	2017	Change
Revenues:			
Program Revenues			
Charges for Services	$6,791,806	$6,664,111	$127,695
Operating Grants and Contributions	483,906	492,775	(8,869)
Total Program Revenues	7,275,712	7,156,886	118,826
General Revenues			
Grants and Entitlements	324	9,558	(9,234)
Interest	14,704	7,666	7,038
Miscellaneous	58,143	61,760	(3,617)
Total General Revenues	73,171	78,984	(5,813)
Total Revenues	7,348,883	7,235,870	113,013
Expenses:			
Instruction:			
Regular	85,892	169,869	83,977
Special	1,614,030	3,059,561	1,445,531
Support Services:			
Pupils	593,511	1,750,213	1,156,702
Instructional Staff	286,887	1,107,839	820,952
Board of Education	42,812	45,368	2,556
Administration	0	899,038	899,038
Fiscal	196,891	290,229	93,338
Operation and Maintenance of Plant	69,041	116,987	47,946
Pupil Transportation	2,929	2,656	(273)
Central	14,782	13,582	(1,200)
Non-Instructional Services	1,098	1,586	488
Extracurricular Activities	4,910	2,036	(2,874)
Total Expenses	2,912,783	7,458,964	4,546,181
Increase (Decrease) in Net Position	4,436,100	(223,094)	4,659,194
Net Position (Deficit) at Beginning of Year	(14,184,755)	n/a	n/a
Net Position (Deficit) at End of Year	($9,748,655)	($14,184,755)	$4,436,100

The information necessary to restate the fiscal year 2017 beginning balances and the fiscal year 2017 OPEB expense amounts for the effects of the initial implementation of GASB Statement No. 75 is not available. Therefore, fiscal year 2017 functional expenses still include OPEB expense of $23,442 computed under GASB Statement No. 45. GASB Statement No. 45 required recognizing pension expense equal to contractually required contributions to the plan. Under GASB Statement No. 75, OPEB expense represents additional amounts earned adjusted by deferred outflows/inflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB Statement No. 75, the fiscal year 2018 financial statements report negative OPEB expense of $330,344. Consequently, in order to compare fiscal year 2018 total program expenses to fiscal year 2017, the following adjustments are needed.

Total 2018 Program Expenses Under GASB Statement No. 75	$2,912,783
Negative OPEB Expense Under GASB Statement No. 75	(330,344)
2018 Contractually Required Contribution	(31,131)
Adjusted 2018 Program Expenses	2,551,308
Total 2017 Program Expenses Under GASB Statement No. 45	(7,458,964)
Decrease in Program Expenses Not Related to OPEB	($4,907,656)

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes including a reduction in the discount rate and also voted to suspend cost of living adjustments (COLA). SERS decreased the COLA assumption. See Note 11. As a result of these changes, pension expense decreased from $904,082 in fiscal year 2017 to a negative pension expense of $3,217,483 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows.

	2018 Program Expenses Related to Negative Pension Expense
Expenses:	
Instruction:	
Regular	($53,288)
Special	(1,041,750)
Vocational	
Support Services:	
Pupils	(926,211)
Instructional Staff	(619,412)
Administration	(500,652)
Fiscal	(47,360)
Operation and Maintenance of Plant	(28,233)
Pupil Transportation	
Central	(577)
Total Expenses	(3,217,483)

Program revenues were 99 percent of total revenues for fiscal year 2018 (the same as the prior year) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 92 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to eight local school districts and one city school district in Northwest Ohio. The increase in total revenues from the prior fiscal year is primarily due to an increase in the charges to local school districts (which fluctuate annually based on services requested by the supported school districts and grant funding).

Expenses related to the services charged to school districts are a large portion of the Educational Service Center's budget and dependent on the level of services requested by those school districts which vary from year to year. Overall expenses (excluding those related to the net pension/OPEB liabilities) increased less than 1 percent from the prior fiscal year.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the costs of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction:				
Regular	$85,892	$169,869	($1,579,601)	($1,228,591)
Special	1,614,030	3,059,561	(3,678,445)	(2,412,963)
Support Services:				
Pupils	593,511	1,750,213	593,511	1,750,213
Instructional Staff	286,887	1,107,839	286,887	1,107,839
Board of Education	42,812	45,368	42,812	45,368
Administration	0	899,038	(305,767)	624,481
Fiscal	196,891	290,229	196,891	290,229
Operation and Maintenance of Plant	69,041	116,987	69,041	116,987
Pupil Transportation	2,929	2,656	(5,748)	(4,793)
Central	14,782	13,582	14,782	13,582
Non-Instructional Services	1,098	1,586	(2,202)	(2,310)
Extracurricular Activities	4,910	2,036	4,910	2,036
Total Expenses	$2,912,783	$7,458,964	($4,362,929)	$302,078

As indicated previously, a significant portion of the Educational Service Center's program costs are provided for through program revenues, that being charges for programs provided by the Educational Service Center to school districts served by the Educational Service Center and from various grant resources. The significant reduction from the prior fiscal year is due to the reduction in expenses resulting from the decrease in the net pension/OPEB liability.

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over-funded while the instructional staff support services program seems to be quite underfunded. Some expenses within the pupils support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance increased 18 percent for the General Fund. There was a 2 percent increase in revenues (primarily tuition and interest), while expenditures increased less than 1 percent.

Capital Assets

At June 30, 2018, the Educational Service Center had $23,900 invested in capital assets (net of accumulated depreciation). Both additions and disposals were minimal. For further information regarding the Educational Service Center's capital assets, refer to Note 7 to the basic financial statements.

Current Issues

State foundation revenues for fiscal year 2019 are expected to be close to the funding in fiscal year 2018. The State funding calculation is anticipated to be steady at $26 per pupil instead of $24 per pupil. Educational service centers that prove they are a high performing educational service center will be able to keep the $26 per pupil funding instead of dropping to $24 per pupil. Currently, this has been achieved by the Hancock County Educational Service Center and it is expected to receive the $26 per pupil funding estimating the proration factor will stay at 1.00. This will help minimize any decrease for the current fiscal year. The State still has the ability to "prorate to stay within the appropriations" and this factor will be monitored as we proceed throughout the fiscal year. Service contract revenue is expected to moderately increase due to the anticipation of school districts needing to maintain services. For fiscal year 2019, grant funding is expected to stay the same.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Greg Spiess, Hancock County Educational Service Center, 7746 County Road 140 Findlay, Ohio 45840.

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

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	$1,732,890
Accounts Receivable	15,821
Accrued Interest Receivable	41
Intergovernmental Receivable	68,148
Prepaid Items	14,845
Depreciable Capital Assets, Net	23,900
Total Assets	1,855,645
Deferred Outflows of Resources:	
Pension	3,321,922
OPEB	133,076
Total Deferred Outflows of Resources	3,454,998
Liabilities:	
Accounts Payable	12,922
Accrued Wages and Benefits Payable	661,224
Intergovernmental Payable	161,352
Long-Term Liabilities:	
Due Within One Year	20,200
Due in More Than One Year	
Net Pension Liability	9,977,737
Net OPEB Liability	2,366,987
Other Amounts Due in More Than One Year	421,214
Total Liabilities	13,621,636
Deferred Inflows of Resources:	
Pension	1,097,480
OPEB	340,182
Total Deferred Inflows of Resources	1,437,662
Net Position:	
Net Investment in Capital Assets	23,900
Restricted For:	
Other Purposes	49,604
Unrestricted (Deficit)	(9,822,159)
Total Net Position (Deficit)	($9,748,655)

See Accompanying Notes to Basic Financial Statements

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

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Change in Net Position: Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$85,892	$1,502,599	$162,894	$1,579,601
Special	1,614,030	4,971,463	321,012	3,678,445
Support Services:				
Pupils	593,511	0	0	(593,511)
Instructional Staff	286,887	0	0	(286,887)
Board of Education	42,812	0	0	(42,812)
Administration	0	305,767	0	305,767
Fiscal	196,891	0	0	(196,891)
Operation and Maintenance of Plant	69,041	0	0	(69,041)
Pupil Transportation	2,929	8,677	0	5,748
Central	14,782	0	0	(14,782)
Non-Instructional Services	1,098	3,300	0	2,202
Extracurricular Activities	4,910	0	0	(4,910)
Total Governmental Activities	$2,912,783	$6,791,806	$483,906	4,362,929

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	324
Interest	14,704
Miscellaneous	58,143
Total General Revenues	73,171
Change in Net Position	4,436,100
Net Position (Deficit) at Beginning of Year (Restated - See Note 3)	(14,184,755)
Net Position (Deficit) at End of Year	($9,748,655)

See Accompanying Notes to the Basic Financial Statements

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

	General	Other Governmental	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	$1,672,326	$60,445	$1,732,771
Accounts Receivable	15,821	0	15,821
Accrued Interest Receivable	41	0	41
Intergovernmental Receivable	63,332	4,816	68,148
Interfund Receivable	1,523	0	1,523
Prepaid Items	14,650	195	14,845
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	119	0	119
Total Assets	$1,767,812	$65,456	$1,833,268
Liabilities			
Accounts Payable	$12,922	$0	$12,922
Accrued Wages and Benefits Payable	648,736	12,488	661,224
Intergovernmental Payable	159,511	1,841	161,352
Interfund Payable	0	1,523	1,523
Total Liabilities	821,169	15,852	837,021
Fund Balances:			
Nonspendable	14,769	195	14,964
Restricted	0	49,437	49,437
Assigned	118,265	0	118,265
Unassigned (Deficit)	813,609	(28)	813,581
Total Fund Balances	946,643	49,604	996,247
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$1,767,812	$65,456	$1,833,268

See Accompanying Notes to the Basic Financial Statements

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

Total Governmental Fund Balances		$996,247
Amounts reported for governmental activities on the statement of net position are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		23,900
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(441,414)
The net pension/OPEB liability is not due and payable in the current period; therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.		
Deferred Outflows - Pension	3,321,922	
Deferred Inflows - Pension	(1,097,480)	
Net Pension Liability	(9,977,737)	
Deferred Outflows - OPEB	133,076	
Deferred Inflows - OPEB	(340,182)	
Net OPEB Liability	(2,366,987)	
		(10,327,388)
Net Position of Governmental Activities		($9,748,655)

See Accompanying Notes to the Basic Financial Statements

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

	General	Other Governmental	Total Governmental Funds
Revenues:			
Intergovernmental	$321,336	$26,800	$348,136
Interest	14,704	0	14,704
Tuition and Fees	3,411,762	0	3,411,762
Customer Services	3,380,794	0	3,380,794
Gifts and Donations	0	136,094	136,094
Miscellaneous	58,143	0	58,143
Total Revenues	7,186,739	162,894	7,349,633
Expenditures:			
Current:			
Instruction:			
Regular	218,594	0	218,594
Special	2,908,989	97,801	3,006,790
Support Services:			
Pupils	1,817,711	0	1,817,711
Instructional Staff	1,041,825	36,687	1,078,512
Board of Education	42,812	0	42,812
Administration	591,069	800	591,869
Fiscal	283,956	0	283,956
Operation and Maintenance of Plant	113,218	0	113,218
Pupil Transportation	2,929	0	2,929
Central	13,916	1,800	15,716
Non-Instructional Services	1,098	0	1,098
Extracurricular Activities	4,910	0	4,910
Total Expenditures	7,041,027	137,088	7,178,115
Changes in Fund Balances	145,712	25,806	171,518
Fund Balances at Beginning of Year	800,931	23,798	824,729
Fund Balances at End of Year	$946,643	$49,604	$996,247

See Accompanying Notes to the Basic Financial Statements

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

Changes in Fund Balances - Total Governmental Funds		$171,518
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year.		
Capital Outlay - Depreciable Capital Assets	9,580	
Depreciation	(5,543)	
		4,037
The book value of the capital assets if removed from the capital asset account on the statement of net position when disposed of resulting in a loss on disposal of capital assets on the statement of activities.		(735)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.		
Customer Services		(750)
Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		4,363
Except for amounts reported as deferred outflows/inflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense on the statement of activities.		
Pension	3,217,483	
OPEB	330,344	
		3,547,827
Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows.		
Pension	678,709	
OPEB	31,131	
		709,840
Change in Net Position of Governmental Activities		$4,436,100

See Accompanying Notes to the Basic Financial Statements

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

Assets:	
Equity in Pooled Cash and Cash Equivalents	$6,455
Liabilities:	
Undistributed Assets	$4,589
Due to Students	1,866
Total Liabilities	$6,455

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Reporting Entity

The Hancock County Educational Service Center (the "Educational Service Center") is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Riverdale, Van Buren, and Vanlue Local School Districts and the Findlay City School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has fifteen administrators, sixty-seven classified employees, and fifty-eight certified teaching personnel that provide services to the local and city school districts.

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 16 and 17 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds used by the Educational Service Center, governmental and fiduciary.

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

> 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 to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2018. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for other activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On the 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 both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB and explained in Note 11 and Note 12 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources includes pension and OPEB. Deferred inflows of resources related to pension and OPEB are reported on the government wide statement of net position and explained in Note 11 and Note 12 to the basic financial statements.

Expenses/Expenditures

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

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

E. Cash and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

During fiscal year 2018, the Educational Service Center invested in negotiable certificates of deposit and STAR Ohio. Negotiable certificates of deposit are reported at fair value. Fair value is based on quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer’s Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB) Statement No. 79, “Certain External Investment Pools and Pool Participants”. The Educational Service Center measures the investment in STAR Ohio at net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides a NAV per share that approximates fair value.

Note 2 - Summary of Significant Accounting Policies (continued)

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

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2018 was $14,704 which includes $529 assigned from other Educational Service Center funds.

Investments of the Educational Service Center's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

G. Capital Assets

All of the Educational Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The Educational Service Center maintains a capitalization threshold of seven hundred fifty dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

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

Description	Useful Lives
Buildings and Building Improvements	25 years
Furniture, Fixtures, and Equipment	5-15 years

Note 2 - Summary of Significant Accounting Policies (continued)

H. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans and services provided are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net position.

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees who have ten or more years of service with the Educational Service Center.

J. Accrued Liabilities and Long-Term Obligations

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

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

K. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net position represents federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Note 2 - Summary of Significant Accounting Policies (continued)

L. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Governing Board. The Governing Board has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Educational Service Center first applies restricted resources when an expenditure is 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 can be used.

M. Pension/Other Postemployment Benefits

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, 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 systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB systems report investments at fair value.

Note 2 - Summary of Significant Accounting Policies (continued)

N. Estimates

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

Note 3 - Change in Accounting Principles and Restatement of Net Position

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

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

GASB Statement No. 75 established standards for measuring and recognizing postemployment benefit liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. The implementation of this statement had the following effect on net position as previously reported.

Net Position (Deficit) June 30, 2017	($11,249,187)
Net OPEB Liability	(2,959,010)
Deferred Outflows - Payments Subsequent to the Measurement Date	23,442
Restated Net Position (Deficit) June 30, 2017	($14,184,755)

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

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

Note 4 - Deposits and Investments

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

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

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

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

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

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

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

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

3. Written repurchase agreements in the securities listed above;

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

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

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

<u>Note 4 - Deposits and Investments</u> (continued)

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

8. Bankers' acceptances and commercial paper if training requirements have been met.

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

<u>Investments</u>

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

Measurement/ Investment	Measurement Amount	Maturity
Fair Value - Level Two Inputs		
Negotiable Certificates of Deposit	$99,638	2/19/19
Negotiable Certificates of Deposit	99,331	9/30/19
Net Asset Value Per Share		
STAR Ohio	1,019,142	48.9 days average
Total Investments	$1,218,111	

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the Educational Service Center.

The negotiable certificates of deposit are generally covered by SIPC insurance. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with credit risk beyond the requirements of State statute. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

Negotiable certificates of deposit make up 16 percent of the Educational Service Center's total portfolio.

Note 5 - State Funding

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of $26 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to $6.50 multiplied by the Educational Service Center's total student count and remits this amount to the Educational Service Center.

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

Note 6 - Receivables

Receivables at June 30, 2018, included accounts, accrued interest, intergovernmental, and interfund receivables. All receivables are considered collectible in full and within one year due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Various School Districts	$36,369
Ohio Bureau of Workers' Compensation	22,033
Hancock County Commissioners	4,930
Total General Fund	63,332
Other Governmental Funds	
Miscellaneous State Grants	4,816
Total Intergovernmental Receivables	$68,148

Note 7 - Capital Assets

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

	Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	$61,711	$0	$0	$61,711
Furniture, Fixtures, and Equipment	158,091	9,580	(2,595)	165,076
Total Depreciable Capital Assets	219,802	9,580	(2,595)	226,787
Less Accumulated Depreciation				
Buildings and Building Improvements	(49,523)	(995)	0	(50,518)
Furniture, Fixtures, and Equipment	(149,681)	(4,548)	1,860	(152,369)
Total Accumulated Depreciation	(199,204)	(5,543)	1,860	(202,887)
Governmental Activities Capital Assets, Net	$20,598	$4,037	($735)	$23,900

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$995
Special	2,866
Support Services:	
Instructional Staff	572
Administration	804
Fiscal	306
Total Depreciation Expense	$5,543

Note 8 - Interfund Receivables/Payables

At June 30, 2018, the General Fund had an interfund receivable, in the amount of $1,523, from other governmental funds for short-term loans made to those funds. These amounts are expected to be repaid within one year.

Note 9 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority	
General Liability	
Per Occurrence	$15,000,000
Total per Year	17,000,000
Auto Liability	15,000,000
Commercial Property (District Limit)	534,697

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

For fiscal year 2018, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Educational Service Center pays monthly premiums to the Fund for employee medical, dental, and vision insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

Note 10 - Contractual Commitments

At fiscal year end, the General Fund had $126,438 of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2019.

Note 11 - Defined Benefit Pension Plans

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

Net Pension Liability

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

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

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

GASB Statements No. 68 and No. 75 assume 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 the employers. All pension contributions to date have come solely from the employer (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for OPEB benefits. In addition, health care plan enrollees pay a portion of the health care cost in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within thirty years. If the amortization period exceeds thirty years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits but does not require the retirement systems to provide health care to eligible benefit recipients.

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

Note 11 - Defined Benefit Pension Plans (continued)

Plan Description - School Employees Retirement System (SERS)

Plan Description - Educational Service Center nonteaching 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. The report can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; 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; Age 60 with 25 years of service credit

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

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

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost of living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

The Educational Service Center's contractually required contribution to SERS was $200,648 for fiscal year 2018. Of this amount, $31,623 is reported as an intergovernmental payable.

Note 11 - Defined Benefit Pension Plans (continued)

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Educational Service Center licensed teachers and other certified 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 publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

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

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost of living adjustment was reduced to zero. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit 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 sixty-five or thirty-five years of service credit and at least age sixty.

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

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate goes to the DCP and the remaining 2 percent goes to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty 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 fifty or later.

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

Note 11 - Defined Benefit Pension Plans (continued)

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

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

The Educational Service Center's contractually required contributions to STRS was $478,061 for fiscal year 2018. Of this amount, $88,599 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.04533470%	0.03084212%	
Proportion of the Net Pension Liability Current Measurement Date	0.04168670%	0.03151749%	
Change in Proportionate Share	0.00364800%	0.00067537%	
Proportionate Share of the Net Pension Liability	$2,490,689	$7,487,048	$9,977,737
Pension Expense	($258,984)	($2,958,499)	($3,217,483)

Note 11 - Defined Benefit Pension Plans (continued)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	$107,191	$289,115	$396,306
Changes of Assumptions	128,795	1,637,500	1,766,295
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	20,342	460,270	480,612
Educational Service Center Contributions Subsequent to the Measurement Date	200,648	478,061	678,709
Total Deferred Outflows of Resources	$456,976	$2,864,946	$3,321,922
Deferred Inflows of Resources			
Differences Between Expected and Actual Experience	$0	$60,343	$60,343
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	11,823	247,081	258,904
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	365,079	413,154	778,233
Total Deferred Inflows of Resources	$376,902	$720,578	$1,097,480

$678,709 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2019	($61,804)	$271,075	$209,271
2020	7,034	607,192	614,226
2021	(7,740)	619,021	611,281
2022	(58,064)	169,019	110,955
Total	($120,574)	$1,666,307	$1,545,733

Note 11 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal

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

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

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

Note 11 - Defined Benefit Pension Plans (continued)

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$3,456,428	$2,490,689	$1,681,684

<u>Note 11 - Defined Benefit Pension Plans</u> (continued)

<u>Actuarial Assumptions - STRS</u>

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

	July 1, 2017	July 1, 2016
Inflation	2.5 percent	2.75 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost of Living Adjustments (COLA)	0 percent effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date

For the July 1, 2017, actuarial valuation, postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were 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. Preretirement mortality rates were based on the 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 were set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty were set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety 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 2, 2011, through June 30, 2016. Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience effective July 1, 2012.

Note 11 - Defined Benefit Pension Plans (continued)

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
	100.00%	

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$10,732,428	$7,487,048	$4,753,301

Note 11 - Defined Benefit Pension Plans (continued)

Social Security

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2018, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 12 - Postemployment Benefits

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

School Employees Retirement System (SERS)

Plan Description **-** The Educational Service Center contributes to the SERS Health Care Fund administered by SERS for nonteaching retirees and their beneficiaries. For GASB Statement No. 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. The SERS Health Care Plan provides health care benefits to eligible individuals receiving retirement, disability and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need ten 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 sixty-five 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 State statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The 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 establishes 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.

Note 12 - Postemployment Benefits (continued)

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

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was $31,131 for fiscal year 2018. Of this amount, $24,871 is reported as an intergovernmental payable.

State Teachers Retirement System (STRS)

Plan Description - The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing health care plan for eligible retirees who participated in the defined benefit and combined pension plans offered by STRS. Ohio law authorizes STRS to offer the 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 STRS financial report which can be obtained by visiting the STRS website at www.strsoh.org or by calling (888) 227-7877.

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care 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 postemployment 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 postemployment health care.

Net OPEB Liability

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

Note 12 - Postemployment Benefits (continued)

Following is information related to the proportionate share and OPEB expense.

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	.04594370%	.03084212%	
Proportion of the Net OPEB Liability Current Measurement Date	.04237710%	.03151749%	
Change in Proportionate Share	.00356660%	.00067537%	
Proportionate Share of the Net OPEB Liability	$1,137,290	$1,229,697	$2,366,987
OPEB Expense	$39,733	($370,077)	($330,344)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	$0	$70,986	$70,986
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	0	30,959	30,959
Educational Service Center Contributions Subsequent to the Measurement Date	31,131	0	31,131
Total Deferred Outflows of Resources	$31,131	$101,945	$133,076
Deferred Inflows of Resources			
Changes of Assumptions	$107,923	$99,056	$206,979
Net Difference Between Projected and Actual Earnings on OPEB Plan Investments	3,003	52,560	55,563
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	77,640	0	77,640
Total Deferred Inflows of Resources	$188,566	$151,616	$340,182

Note 12 - Postemployment Benefits (continued)

$31,131 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows.

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2019	($67,983)	($12,658)	($80,641)
2020	(67,983)	(12,658)	(80,641)
2021	(51,849)	(12,658)	(64,507)
2022	(751)	(12,659)	(13,410)
2023	0	482	482
2024	0	480	480
Total	($188,566)	($49,671)	($238,237)

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 modification 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.

Note 12 - Postemployment Benefits (continued)

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 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense including inflation	
Measurement Date	3.63 percent
Prior Measurement Date	2.98 percent
Medical Trend Assumption	
Medicare	5.5 to 5 percent
Pre-Medicare	7.5 to 5 percent

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.5 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 ten year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

Note 12 - Postemployment Benefits (continued)

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 the 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 retirement system at the State statute contribution rate of 2 percent of projected covered employee payroll each year which includes a 1.5 percent payroll surcharge and .5 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 Twenty-Year Municipal Bond Index Rate of 3.56 percent, as of June 30, 2017 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rate - 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 and what SERS' net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.63 percent) or one percentage point higher (4.63 percent) than the current discount rate (3.63 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are one percentage point lower (6.5 percent decreasing to 4 percent) and one percentage point higher (8.5 percent decreasing to 6 percent) than the current rate.

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$1,373,423	$1,137,290	$950,213

	1% Decrease (6.5% Decreasing to 4%)	Current Trend Rate (7.5% Decreasing to 5%)	1% Increase (8.5% Decreasing to 6%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$922,826	$1,137,290	$1,421,137

Note 12 - Postemployment Benefits (continued)

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	2.5 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65
Investment Rate of Return	7.45 percent net of investment expenses, including inflation
Payroll Increases	3 percent
Cost of Living Adjustments (COLA)	0 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

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

For healthy retirees, the mortality rates were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. For disabled retirees, mortality rates were based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using Mortality Improvement Scale MP-2016.

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

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

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

Note 12 - Postemployment Benefits (continued)

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

Discount Rate - The discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS 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 Twenty-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 Twenty-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 Twenty-Year Municipal Bond Rate of 2.85 percent for the unfunded benefit payments was used to measure the total OPEB liability at June 30, 2016.

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Educational Service Center's Proportionate Share of the Net OPEB Liability	$1,650,847	$1,229,697	$896,849

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's Proportionate Share of the Net OPEB Liability	$854,340	$1,229,697	$1,723,709

Note 13 - Other Employee Benefits

A. 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 year, depending on length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Certified employees do not earn vacation time.

Classified and certified employees and administrators earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty-five days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of thirty days. After the thirty-day maximum is achieved, employees are paid one additional day for each year of service with the Educational Service Center, up to a total maximum of forty-eight days. An employee’s severance pay is pro-rated if they have not served five years with the Educational Service Center.

B. Health Care Benefits

The Educational Service Center provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. Depending upon the plan chose, the employees share the cost of the monthly premium with the Board. The Educational Service Center also offers life insurance to all employees through the Ohio Schools Council Association Life Insurance Company.

Note 14 - Long-Term Obligations

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

	Restated Balance at 6/30/17	Additions	Reductions	Balance at 6/30/18	Amounts Due Within One Year
Governmental Activities					
Net Pension Liability					
SERS	$3,318,082	$0	$827,393	$2,490,689	$0
STRS	10,323,787	0	2,836,739	7,487,048	0
Total Net Pension Liability	13,641,869	0	3,664,132	9,977,737	0
Net OPEB Liability					
SERS	1,309,565	0	172,275	1,137,290	$0
STRS	1,649,445	0	419,748	1,229,697	0
Total Net OPEB Liability	2,959,010	0	592,023	2,366,987	0
Compensated Absences	445,777	46,886	51,249	441,414	20,200
Total Governmental Activities	$17,046,656	$46,886	$4,307,404	$12,786,138	$20,200

Note 14 - Long-Term Obligations (continued)

There is no repayment schedule for the net pension/OPEB liability; however, employer pension contributions are made from the General Fund and the Other Local Grants and Miscellaneous State Grants special revenue funds.

Compensated absences will be paid from the General Fund.

Note 15 - Fund Balance

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

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Prepaid Items	$14,650	$195	$14,845
Unclaimed Monies	119	0	119
Total Nonspendable	14,769	195	14,964
Restricted for:			
Special Instruction	0	49,437	49,437
Assigned for:			
Educational Activities	1,810	0	1,810
Non-Instructional Services	506	0	506
Unpaid Obligations	115,949	0	115,949
Total Assigned	118,265	0	118,265
Unassigned (Deficit)	813,609	(28)	813,581
Total Fund Balance	$946,643	$49,604	$996,247

Note 16 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2018, the Educational Service Center paid $12,802 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Superintendents from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1100 Broad Avenue, Findlay Ohio 45840.

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

Note 17 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a nine member board consisting of Superintendents, Treasurers, and Business Managers. Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing, consulting services, and establishing agreements between SORSA and its members. Financial information can be obtained by contacting SORSA, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

Note 17 - Insurance Pools (continued)

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the consultant concerning aspects of the administration of the Plan.

C. Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 18 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2018.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

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

	2018	2017	2016	2015
Educational Service Center's Proportion of the Net Pension Liability	0.04168670%	0.04533470%	0.05281740%	0.05145300%
Educational Service Center's Proportionate Share of the Net Pension Liability	$2,490,689	$3,318,082	$3,013,812	$2,604,007
Educational Service Center's Employee Payroll	$1,338,036	$1,410,564	$1,553,293	$1,400,771
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	186.15%	235.23%	194.03%	185.90%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%

(1) Information prior to 2014 is not available.

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

See Accompanying Notes to the Required Supplementary Information

2014
0.05145300%
$3,059,745
$1,270,382
240.85%
65.52%

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

	2018	2017	2016	2015
Educational Service Center's Proportion of the Net Pension Liability	0.03151749%	0.30842120%	0.02905736%	0.03264718%
Educational Service Center's Proportionate Share of the Net Pension Liability	$7,487,048	$10,323,787	$8,030,605	$7,940,924
Educational Service Center's Employee Payroll	$3,429,807	$3,334,179	$3,027,143	$3,384,046
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	218.29%	309.64%	265.29%	234.66%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%

(1) Information prior to 2014 is not available.

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

See Accompanying Notes to the Required Supplementary Information

2014
0.03264718%
$9,459,177
$2,990,685
316.29%
69.30%

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

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.04237710%	0.04594370%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$1,137,290	$1,309,565
Educational Service Center's Employee Payroll	$1,338,036	$1,410,564
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	85.00%	92.84%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Information prior to 2017 is not available.

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

See Accompanying Notes to the Required Supplementary Information

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

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.03151749%	0.03084212%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$1,229,697	$1,649,445
Educational Service Center's Employee Payroll	$3,429,807	$3,334,179
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of Employee Payroll	35.85%	49.47%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See Accompanying Notes to the Required Supplementary Information

Hancock County Educational Service Center
Required Supplementary Information
Schedule of the Educational Service Center's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$200,648	$187,325	$197,479	$204,724
Contributions in Relation to the Contractually Required Contribution	(200,648)	(187,325)	(197,479)	(204,724)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Employee Payroll (1)	$1,486,281	$1,338,036	$1,410,564	$1,553,293
Pension Contributions as a Percentage of Employee Payroll	13.50%	14.00%	14.00%	13.18%
Net OPEB Liability				
Contractually Required Contribution (2)	$31,131	$23,442	$23,256	$25,677
Contributions in Relation to the Contractually Required Contribution	(31,131)	(23,442)	(23,256)	(25,677)
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Employee Payroll	2.09%	1.75%	1.65%	1.65%
Total Contributions as a Percentage of Employee Payroll (2)	15.59%	15.75%	15.65%	14.83%

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

See Accompanying Notes to the Required Supplementary Information

2014	2013	2012	2011	2010	2009
$183,501	$166,420	$154,924	$137,939	$145,049	$132,328
(183,501)	(166,420)	(154,924)	(137,939)	(145,049)	(132,328)
$0	$0	$0	$0	$0	$0
$1,400,771	$1,270,382	$1,219,874	$1,167,985	$1,134,969	$1,455,754
13.10%	13.10%	12.70%	11.81%	12.78%	9.08%
$25,114	$21,999	$23,819	$33,402	$22,684	$79,026
(25,114)	(21,999)	(23,819)	(33,402)	(22,684)	(79,026)
$0	$0	$0	$0	$0	$0
1.79%	1.73%	1.95%	2.86%	2.00%	5.43%
14.89%	14.83%	14.65%	14.67%	14.78%	14.51%

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$478,061	$480,173	$466,785	$423,800
Contributions in Relation to the Contractually Required Contribution	(478,061)	(480,173)	(466,785)	(423,800)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Employee Payroll	$3,414,721	$3,429,807	$3,334,179	$3,027,143
Pension Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	14.00%
Net OPEB Liability				
Contractually Required Contribution	$0	$0	$0	$0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Employee Payroll	0.00%	0.00%	0.00%	0.00%
Total Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	14.00%

See Accompanying Notes to the Required Supplementary Information

2014	2013	2012	2011	2010	2009
$439,926	$388,789	$368,333	$345,625	$301,146	$372,991
(439,926)	(388,789)	(368,333)	(345,625)	(301,146)	(372,991)
$0	$0	$0	$0	$0	$0
$3,384,046	$2,990,685	$2,833,331	$2,658,654	$2,316,508	$2,869,162
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$33,840	$29,907	$28,333	$26,587	$23,165	$28,692
(33,840)	(29,907)	(28,333)	(26,587)	(23,165)	(28,692)
$0	$0	$0	$0	$0	$0
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Net Pension Liability

Changes in Assumptions - SERS

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

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

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, Including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation

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

Changes in Assumptions - STRS

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

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.5 percent	2.75 percent
Projected Salary Increases	12.5 percent at age 20 to 2.5 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost of Living Adjustments (COLA)	0 percent effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date

For fiscal year 2018, postretirement mortality rates for healthy retirees were based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age sixty-nine, 70 percent of rates between ages seventy and seventy-nine, 90 percent of rates between ages eighty and eighty-four, and 100 percent of rates thereafter, projected forward generationally using Mortality Improvement Scale MP-2016. Postretirement disabled mortality rates were 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. Preretirement mortality rates were based on the RP-2014 Employee Mortality Table projected forward generationally using Mortality Improvement Scale MP-2016.

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

Net OPEB Liability

Changes in Assumptions - SERS

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

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

Changes in Assumptions - STRS

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

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

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Supplemental Section

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

	Budgeted Amounts			Variance with Final Budget Over
	Original	Final	Actual	(Under)
Revenues:				
Intergovernmental			$321,336	
Interest			15,407	
Tuition and Fees			3,410,464	
Customer Services			3,446,305	
Miscellaneous			34,644	
Total Revenues			7,228,156	
Expenditures:				
Current:				
Instruction:				
Regular	$263,291	$263,291	219,759	$43,532
Special	3,249,593	3,314,893	2,918,448	396,445
Support Services:				
Pupils	1,939,972	1,950,438	1,816,569	133,869
Instructional Staff	1,129,953	1,150,653	1,052,411	98,242
Board of Education	72,986	72,986	44,217	28,769
Administration	759,336	801,926	693,116	108,810
Fiscal	292,569	298,179	282,941	15,238
Operation and Maintenance of Plant	115,788	115,788	112,941	2,847
Pupil Transportation	6,000	6,000	2,202	3,798
Central	19,250	19,250	17,725	1,525
Non-Instructional Services	1,604	1,604	1,098	506
Extracurricular Activities	2,850	5,065	4,919	146
Total Expenditures	7,853,192	8,000,073	7,166,346	833,727
Excess of Revenues Over (Under) Expenditures	(7,853,192)	(8,000,073)	61,810	8,061,883
Other Financing Sources:				
Refund of Prior Year Expenditures	19,000	19,000	20,781	1,781
Changes in Fund Balance	(7,834,192)	(7,981,073)	82,591	8,063,664
Fund Balance at Beginning of Year	1,411,929	1,411,929	1,411,929	0
Prior Year Encumbrances Appropriated	$53,726	$53,726	53,726	0
Fund Balance at End of Year			$1,548,246	$8,063,664

See Accompanying Notes to the Supplemental Section

Note 1 - Budgetary Process

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

The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year.

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

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

Note 2 - Budgetary Basis of Accounting

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

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

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

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

Note 2 - Budgetary Basis of Accounting (continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

Change in Fund Balance

	General Fund
GAAP Basis	$145,712
Increase (Decrease) Due to:	
Revenue Accruals:	
Accrued FY 2017, Received in Cash FY 2018	140,689
Accrued FY 2018, Not Yet Received in Cash	(79,194)
Expenditure Accruals:	
Accrued FY 2017, Paid in Cash FY 2018	(820,864)
Accrued FY 2018, Not Yet Paid in Cash	821,169
Cash Adjustments:	
Unrecorded Activity FY 2017	(13)
Unrecorded Activity FY 2018	716
Prepaid Items	814
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(126,438)
Budget Basis	$82,591

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

Highlights

Highlights for fiscal year 2017 are as follows:

Net position decreased $223,094, or 2 percent.

Program specific revenues, in the form of charges for services and operating grants, accounted for $7,156,886, or 99 percent of total revenues.

Using the Basic Financial Statements

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

The statement of net position and the statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for spending in the near future. The fund financial statements also look at the Educational Service Center's most significant funds, with all other nonmajor funds presented in total in a single column. For Hancock County Educational Service Center, the General Fund is the most significant fund.

Reporting the Educational Service Center as a Whole

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during fiscal year 2017. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These statements report the Educational Service Center's net position and changes in net position. This change in net position is important because it tells the reader whether the financial position of the Educational Service Center as a whole has increased or decreased from the prior fiscal year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Nonfinancial factors include facility conditions, required educational programs, and other factors.

In the statement of net position and the statement of activities, all of the Educational Service Center's activities are reported as governmental activities, including instruction, support services, non-instructional services, and extracurricular activities.

Reporting the Educational Service Center's Most Significant Funds

Fund financial statements provide detailed information about the Educational Service Center's major funds. While the Educational Service Center uses many funds to account for its financial transactions, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's only major fund is the General Fund.

Governmental Funds - All of the Educational Service Center's activities are reported in governmental funds, which focus on how monies flow into and out of those funds and the balances left at fiscal year end for spending in future periods. These funds are reported using modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

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

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net position for fiscal year 2017 and fiscal year 2016.

Table 1
Net Position

	Governmental Activities		
	2017	2016	Change
Assets			
Current and Other Assets	$1,660,373	$1,542,825	$117,548
Capital Assets, Net	20,598	25,748	(5,150)
Total Assets	1,680,971	1,568,573	112,398
Deferred Outflows of Resources			
Pension	2,929,896	1,135,234	1,794,662

(continued)

Table 1
Net Position
(continued)

	Governmental Activities		
	2017	2016	Change
Liabilities			
Current and Other Liabilities	$834,894	$779,657	($55,237)
Long-Term Liabilities			
Pension	13,641,869	11,044,417	(2,597,452)
Other Amounts	445,777	402,106	(43,671)
Total Liabilities	14,922,540	12,226,180	(2,696,360)
Deferred Inflows of Resources			
Pension	937,514	1,503,720	566,206
Net Position			
Net Investment in Capital Assets	20,598	25,748	(5,150)
Restricted	23,798	5,874	17,924
Unrestricted (Deficit)	(11,293,583)	(11,057,715)	(235,868)
Total Net Position (Deficit)	($11,249,187)	($11,026,093)	($223,094)

The net pension liability reported by the Educational Service Center at June 30, 2017, is reported pursuant to Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions". For reasons discussed below, end users of these financial statements will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

GASB standards are national standards and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB Statement No. 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB Statement No. 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and State law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB Statement No. 68 requires the net pension liability to equal the Educational Service Center's proportionate share of each plan's collective present value of estimated future pension benefits attributable to active and inactive employees' past service minus plan assets available to pay these benefits.

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

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

In accordance with GASB Statement No. 68, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred outflows/inflows.

Pension related changes noted in the above table reflect a significant increase in deferred outflows and decrease in deferred inflows related to changes in projected and actual earnings on investments related to the net pension liability. The increase in the net pension liability represents the Educational Service Center's proportionate share of the unfunded benefits. As indicated previously, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability.

Aside from pension related activity, there were few changes of significance noted in the above table. The increase in current and other assets was primarily due to a modest increase in cash and cash equivalents and intergovernmental receivables. The increase in current and other liabilities is primarily due to the liability for accrued wages and benefits at fiscal year end. The increase in other long-term liabilities is related to an increase in the liability for compensated absences which is based on the number of employees meeting eligible criteria.

Table 2 reflects the change in net position for fiscal year 2017 and fiscal year 2016.

Table 2
Change in Net Position

	Governmental Activities		
	2017	2016	Change
Revenues:			
Program Revenues			
Charges for Services	$6,664,111	$6,407,128	$256,983
Operating Grants and Contributions	492,775	443,077	49,698
Total Program Revenues	7,156,886	6,850,205	306,681
General Revenues			
Grants and Entitlements	9,558	426	9,132
Interest	7,666	6,296	1,370
Miscellaneous	61,760	56,499	5,261
Total General Revenues	78,984	63,221	15,763
Total Revenues	7,235,870	6,913,426	322,444
Expenses:			
Instruction:			
Regular	169,869	143,426	(26,443)
Special	3,059,561	2,591,496	(468,065)
Support Services:			
Pupils	1,750,213	1,490,835	(259,378)
Instructional Staff	1,107,839	928,581	(179,258)
Board of Education	45,368	60,247	14,879
Administration	899,038	992,577	93,539
Fiscal	290,229	275,309	(14,920)
Operation and Maintenance of Plant	116,987	107,629	(9,358)
Pupil Transportation	2,656	2,322	(334)
Central	13,582	21,192	7,610
Non-Instructional Services	1,586	1,543	(43)
Extracurricular Activities	2,036	2,000	(36)
Total Expenses	7,458,964	6,617,157	(841,807)
Increase (Decrease) in Net Position	(223,094)	296,269	(519,363)
Net Position (Deficit) at Beginning of Year	(11,026,093)	(11,322,362)	296,269
Net Position (Deficit) at End of Year	($11,249,187)	($11,026,093)	($223,094)

Program revenues were 99 percent of total revenues for fiscal year 2017 (the same as the prior year) and are primarily represented by charges for educational programs provided to the school districts served by the Educational Service Center. Charges for services were 92 percent of total revenues. The services being charged to the school districts involve various instruction and support services. The Educational Service Center primarily provides services to eight local school districts and one city school district in Northwest Ohio. The increase in total revenues from the prior fiscal year is primarily due to an increase in the charges to local school districts (which fluctuate annually based on services requested by the supported school districts and grant funding).

Expenses related to the services charged to school districts are a large portion of the Educational Service Center's budget and dependent on the level of services requested by those school districts which vary from year to year. Overall expenses increased approximately 13 percent from the prior fiscal year.

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the costs of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by unrestricted State entitlements.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction:				
Regular	$169,869	$143,426	($1,228,591)	($1,025,842)
Special	3,059,561	2,591,496	(2,412,963)	(2,840,042)
Support Services:				
Pupils	1,750,213	1,490,835	1,750,213	1,490,835
Instructional Staff	1,107,839	928,581	1,107,839	928,581
Board of Education	45,368	60,247	45,368	60,247
Administration	899,038	992,577	624,481	758,607
Fiscal	290,229	275,309	290,229	275,309
Operation and Maintenance of Plant	116,987	107,629	116,987	107,629
Pupil Transportation	2,656	2,322	(4,793)	(9,240)
Central	13,582	21,192	13,582	21,192
Non-Instructional Services	1,586	1,543	(2,310)	(2,324)
Extracurricular Activities	2,036	2,000	2,036	2,000
Total Expenses	$7,458,964	$6,617,157	$302,078	($233,048)

As indicated previously, a significant portion of the Educational Service Center's program costs are provided for through program revenues, that being charges for programs provided by the Educational Service Center to school districts served by the Educational Service Center and from various grant resources.

Expenses for paraprofessionals (teacher aides) are included in the instructional staff support services program. In contrast, instructional programs are charged to school districts and recorded by the Educational Service Center as charges for services revenue for activities related to regular and special instruction. Therefore, the instruction programs appear to be over funded while the instructional staff support services program seems to be quite under funded. Some expenses within the pupils support services program are also charged to school districts with the revenue recorded by the Educational Service Center as charges for services for activities related to special instruction.

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. Fund balance increased 6 percent for the General Fund. There was a 4 percent increase in revenues ((primarily tuition and fees and customer services)) and expenditures increased 5 percent. Revenues exceeded expenditures resulting in the increase.

Capital Assets

At June 30, 2017, the Educational Service Center had $20,598 invested in capital assets (net of accumulated depreciation). Additions were minimal and there were no disposals. For further information regarding the Educational Service Center's capital assets, refer to Note 6 to the basic financial statements.

Current Issues

State foundation revenues are expected to decrease slightly due to legislation for fiscal year 2018. The State funding calculation is changing from $26 per pupil and a proration factor to $24 per pupil and a proration factor. Educational service centers who prove they are a high performing educational service center will be able to get back to $26 per pupil. Currently, this has been achieved by the Hancock County Educational Service Center and it is expected to receive the $26 per pupil. This will help minimize any decrease for the current fiscal year. The State still has the ability to "prorate to stay within the appropriations" and this factor will be monitored as we proceed throughout the fiscal year. Service contract revenue is expected to moderately increase due to the anticipation of school districts needing to maintain services and potentially increase some services. For fiscal year 2018, the Alternative Grant has been eliminated by the federal and state governments. The grant subsidized the Alternative Opportunity Center here at the ESC and the school districts have agreed to the increase in cost for this service. All other grant funding is expected to stay the same or decrease minimally.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to reflect the Educational Service Center's accountability for the monies it receives. Questions concerning any of the information in this report or requests for additional information should be directed to Greg Spiess, Hancock County Educational Service Center, 7746 County Road 140 Findlay, Ohio 45840.

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Hancock County Educational Service Center
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	$1,499,181
Accounts Receivable	10,704
Accrued Interest Receivable	41
Intergovernmental Receivable	134,883
Prepaid Items	15,564
Depreciable Capital Assets, Net	20,598
Total Assets	1,680,971
Deferred Outflows of Resources:	
Pension	2,929,896
Liabilities:	
Accounts Payable	3,570
Accrued Wages and Benefits Payable	656,083
Matured Compensated Absences Payable	13,586
Intergovernmental Payable	161,655
Long-Term Liabilities:	
Due Within One Year	47,097
Due in More Than One Year	
Net Pension Liability	13,641,869
Other Amounts Due in More Than One Year	398,680
Total Liabilities	14,922,540
Deferred Inflows of Resources:	
Pension	937,514
Net Position:	
Net Investment in Capital Assets	20,598
Restricted For:	
Other Purposes	23,798
Unrestricted (Deficit)	(11,293,583)
Total Net Position (Deficit)	($11,249,187)

See Accompanying Notes to Basic Financial Statements

Hancock County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2017

		Program Revenues		Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$169,869	$1,218,389	$180,071	$1,228,591
Special	3,059,561	5,159,820	312,704	2,412,963
Support Services:				
Pupils	1,750,213	0	0	(1,750,213)
Instructional Staff	1,107,839	0	0	(1,107,839)
Board of Education	45,368	0	0	(45,368)
Administration	899,038	274,557	0	(624,481)
Fiscal	290,229	0	0	(290,229)
Operation and Maintenance of Plant	116,987	0	0	(116,987)
Pupil Transportation	2,656	7,449	0	4,793
Central	13,582	0	0	(13,582)
Non-Instructional Services	1,586	3,896	0	2,310
Extracurricular Activities	2,036	0	0	(2,036)
Total Governmental Activities	$7,458,964	$6,664,111	$492,775	(302,078)

General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	9,558
Interest	7,666
Miscellaneous	61,760
Total General Revenues	78,984
Change in Net Position	(223,094)
Net Position (Deficit) at Beginning of Year	(11,026,093)
Net Position (Deficit) at End of Year	($11,249,187)

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2017

	General	Other Governmental	Total Governmental Funds
Assets:			
Equity in Pooled Cash and Cash Equivalents	$1,464,862	$34,200	$1,499,062
Accounts Receivable	10,704	0	10,704
Accrued Interest Receivable	41	0	41
Intergovernmental Receivable	130,694	4,189	134,883
Interfund Receivable	661	0	661
Prepaid Items	15,464	100	15,564
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	119	0	119
Total Assets	$1,622,545	$38,489	$1,661,034
Liabilities			
Accounts Payable	$3,220	$350	$3,570
Accrued Wages and Benefits Payable	644,156	11,927	656,083
Matured Compensated Absences Payable	13,586	0	13,586
Intergovernmental Payable	159,902	1,753	161,655
Interfund Payable	0	661	661
Total Liabilities	820,864	14,691	835,555
Deferred Inflows of Resources:			
Unavailable Revenue	750	0	750
Fund Balances:			
Nonspendable	15,583	100	15,683
Restricted	0	23,711	23,711
Assigned	48,472	0	48,472
Unassigned (Deficit)	736,876	(13)	736,863
Total Fund Balances	800,931	23,798	824,729
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$1,622,545	$38,489	$1,661,034

See Accompanying Notes to the Basic Financial Statements

Hancock County Educational Service Center
Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
June 30, 2017

Total Governmental Fund Balances		$824,729
Amounts reported for governmental activities on the statement of net position are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		20,598
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		
Accounts Receivable		750
Compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.		(445,777)
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred outflows/inflows are not reported in the governmental funds.		
Deferred Outflows	2,929,896	
Deferred Inflows	(937,514)	
Net Pension Liability	(13,641,869)	
		(11,649,487)
Net Position of Governmental Activities		($11,249,187)

See Accompanying Notes to the Basic Financial Statements

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

	General	Other Governmental	Total Governmental Funds
Revenues:			
Intergovernmental	$322,262	$61,048	$383,310
Interest	7,666	0	7,666
Tuition and Fees	3,302,264	0	3,302,264
Customer Services	3,361,097	0	3,361,097
Gifts and Donations	0	119,023	119,023
Miscellaneous	61,760	0	61,760
Total Revenues	7,055,049	180,071	7,235,120
Expenditures:			
Current:			
Instruction:			
Regular	114,498	34,247	148,745
Special	2,872,958	97,794	2,970,752
Support Services:			
Pupils	1,690,709	0	1,690,709
Instructional Staff	1,013,966	27,506	1,041,472
Board of Education	45,368	0	45,368
Administration	866,851	800	867,651
Fiscal	278,928	0	278,928
Operation and Maintenance of Plant	110,210	0	110,210
Pupil Transportation	2,656	0	2,656
Central	11,646	1,800	13,446
Non-Instructional Services	1,586	0	1,586
Extracurricular Activities	2,036	0	2,036
Total Expenditures	7,011,412	162,147	7,173,559
Changes in Fund Balances	43,637	17,924	61,561
Fund Balances at Beginning of Year	757,294	5,874	763,168
Fund Balances at End of Year	$800,931	$23,798	$824,729

See Accompanying Notes to the Basic Financial Statements

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

Changes in Fund Balances - Total Governmental Funds		$61,561
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current fiscal year.		
Capital Outlay - Depreciable Capital Assets	1,526	
Depreciation	(6,676)	
		(5,150)
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.		
Customer Services		750
Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(43,671)
Except for amounts reported as deferred outflows/inflows, changes in the net pension liability are reported as pension expense on the statement of activities.		(904,082)
Contractually required contributions are reported as expenditures in the governmental funds, however, the statement of net position reports these amounts as deferred outflows.		667,498
Change in Net Position of Governmental Activities		($223,094)

See Accompanying Notes to the Basic Financial Statements

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

Assets:	
Equity in Pooled Cash and Cash Equivalents	$6,442
Liabilities:	
Undistributed Assets	$4,792
Due to Students	1,650
Total Liabilities	$6,442

See Accompanying Notes to the Basic Financial Statements

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Note 1 - Reporting Entity

The Hancock County Educational Service Center (the "Educational Service Center") is located in Findlay, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Arcadia, Arlington, Cory Rawson, Liberty Benton, McComb, Riverdale, Van Buren, and Vanlue Local School Districts and the Findlay City School District. The Educational Service Center furnishes these services to strengthen the school districts in areas they are unable to finance or staff independently.

The Educational Service Center operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. The Educational Service Center has sixteen administrators, sixty-one classified employees, and fifty certified teaching personnel that provide services to the local and city school districts.

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

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

The Educational Service Center participates in three jointly governed organizations and three insurance pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, Millstream Career and Technology Center, Hancock County Local Professional Development Committee, Schools of Ohio Risk Sharing Authority, Hancock County Schools Health Benefit Fund, and the Northern Buckeye Education Council Workers' Compensation Group Rating Plan. Information about these organizations is presented in Notes 15 and 16 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Note 2 - Summary of Significant Accounting Policies (continued)

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities of the Educational Service Center that are governmental activities (primarily supported by taxes and intergovernmental revenues) and those that are considered business-type activities (primarily supported by fees and charges). However, the Educational Service Center has no business-type activities.

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

Fund Financial Statements

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds used by the Educational Service Center, governmental and fiduciary.

Note 2 - Summary of Significant Accounting Policies (continued)

Governmental Funds

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

> 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 to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. The Educational Service Center did not have any trust funds in fiscal year 2017. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for non-instructional faculty related activities, student-managed activities, and monies held for other activities.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net position. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

Note 2 - Summary of Significant Accounting Policies (continued)

Fund Financial Statements

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements, and donations. On the accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On the 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 both measurable and available at fiscal year end: grants, interest, tuition, fees, and customer services.

Note 2 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and explained in Note 10 to the basic financial statements.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources includes unavailable revenue and pension. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue consists of accounts receivable. This amount is deferred and recognized as inflows of resources in the period when the amounts become available. For further details on unavailable revenue, refer to the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities. Deferred inflows of resources related to pension are reported on the government-wide statement of net position and explained in Note 10 to the basic financial statements.

Expenses/Expenditures

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

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

E. Cash and Investments

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents”.

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

Note 2 - Summary of Significant Accounting Policies (continued)

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given twenty-four 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 are combined for this purpose.

The Board of Education has allocated interest earnings according to State statutes. Interest revenue credited to the General Fund during fiscal year 2017 was $7,666 which includes $313 assigned from other Educational Service Center funds.

Investments of the Educational Service Center's cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

F. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws of other governments, or are imposed by law through constitutional provisions. Unclaimed monies that have a legal restriction on their expenditure are reported as restricted.

G. Capital Assets

All of the Educational Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the fiscal year. Donated capital assets are recorded at their acquisition value on the date donated. The Educational Service Center maintains a capitalization threshold of seven hundred fifty dollars. The Educational Service Center does not have any infrastructure. Improvements are capitalized.

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

Description	Useful Lives
Buildings and Building Improvements	25 years
Furniture, Fixtures, and Equipment	5-15 years

Note 2 - Summary of Significant Accounting Policies (continued)

H. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans and services provided are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net position.

I. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees who have ten or more years of service with the Educational Service Center.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

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

Note 2 - Summary of Significant Accounting Policies (continued)

K. Net Position

Net position represents the difference between all other elements on the statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted net position represents federal and state grants. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

L. Fund Balance

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

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash.

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

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

Assigned - Amounts in the assigned classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by the Governing Board. The Governing Board has authorized the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

Note 2 - Summary of Significant Accounting Policies (continued)

The Educational Service Center first applies restricted resources when an expenditure is 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 can be used.

M. Pensions

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

N. 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 - Deposits and Investments

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

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

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

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

Note 3 - Deposits and Investments (continued)

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

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

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

3. Written repurchase agreements in the securities listed above;

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

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

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

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

8. Bankers' acceptances and commercial paper if training requirements have been met.

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

Investments

As of June 30, 2017, the Educational Service Center had the following investments:

Measurement/ Investment	Measurement Amount	Maturity
Fair Value - Level Two Inputs		
Negotiable Certificates of Deposit	$100,194	02/19/19
Negotiable Certificates of Deposit	99,446	9/30/19
Net Asset Value Per Share		
STAR Ohio	857,273	45.5 days average
Total Investments	$1,056,913	

Note 3 - Deposits and Investments (continued)

The Educational Service Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Educational Service Center's recurring fair value measurements as of June 30, 2017. The negotiable certificates of deposit are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data (Level 2 inputs).

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the Educational Service Center.

The negotiable certificates of deposit are generally covered by SIPC insurance. STAR Ohio carries a rating of AAA by Standard and Poor's. The Educational Service Center has no investment policy dealing with credit risk beyond the requirements of State statute. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

Negotiable certificates of deposit make up 19 percent of the Educational Service Center's total portfolio.

Note 4 - State Funding

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

The Educational Service Center also receives funding from the State Department of Education, in the amount of $27 multiplied by the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all of the local school districts served by the Educational Service Center. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the school districts served by the Educational Service Center an amount equal to $6.50 multiplied by the Educational Service Center's total student count and remits this amount to the Educational Service Center.

Note 4 - State Funding (continued)

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

Note 5 - Receivables

Receivables at June 30, 2017, included accounts, accrued interest, intergovernmental, and interfund receivables. All receivables are considered collectible in full and within one year due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of intergovernmental receivables follows:

	Amounts
General Fund	
Various School Districts	$106,631
Ohio Bureau of Workers' Compensation	19,315
Hancock County Commissioners	4,748
Other Governmental Funds	
Miscellaneous State Grants	4,189
Total Intergovernmental Receivables	$134,883

Note 6 - Capital Assets

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

	Balance at 6/30/16	Additions	Reductions	Balance at 6/30/17
Governmental Activities				
Depreciable Capital Assets				
Buildings and Building Improvements	$61,711	$0	$0	$61,711
Furniture, Fixtures, and Equipment	156,565	1,526	0	158,091
Total Depreciable Capital Assets	218,276	1,526	0	219,802
Less Accumulated Depreciation				
Buildings and Building Improvements	(48,528)	(995)	0	(49,523)
Furniture, Fixtures, and Equipment	(144,000)	(5,681)	0	(149,681)
Total Accumulated Depreciation	(192,528)	(6,676)	0	(199,204)
Governmental Activities Capital Assets, Net	$25,748	($5,150)	$0	$20,598

Note 6 - Capital Assets (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$995
Special	4,276
Support Services:	
Pupils	42
Instructional Staff	247
Administration	657
Fiscal	459
Total Depreciation Expense	$6,676

Note 7 - Interfund Receivables/Payables

At June 30, 2017, the General Fund had an interfund receivable, in the amount of $661, from other governmental funds for short-term loans made to those funds. These amounts are expected to be repaid within one year.

Note 8 - Risk Management

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the Educational Service Center contracted for the following insurance coverage:

Coverage provided by the Schools of Ohio Risk Sharing Authority	
General Liability	
Per Occurrence	$15,000,000
Total per Year	17,000,000
Auto Liability	15,000,000
Commercial Property (Pool Limit)	300,000,000

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

For fiscal year 2017, the Educational Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to SORSA based on the types and limits of coverage and deductibles selected by the participant.

Note 8 - Risk Management (continued)

The Educational Service Center participates in the Hancock County Schools Health Benefit Fund (Fund), a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Educational Service Center pays monthly premiums to the Fund for employee medical, dental, and vision insurance benefits. The Fund is responsible for the management and operations of the program. Upon withdrawal from the Fund, a participant is responsible for the payment of all Fund liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

The Educational Service Center participates in the Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to reduce premiums for the participants. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Participation in the Plan is limited to participants that can meet the Plan's selection criteria. Each participant must apply annually. The Plan provides the participants with a centralized program for the processing, analysis, and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

Note 9 - Contractual Commitments

At fiscal year end, the General Fund had $53,726 of significant encumbrances expected to be honored upon performance by the vendor in fiscal year 2018.

Note 10 - Defined Benefit Pension Plans

Net Pension Liability

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

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

Note 10 - Defined Benefit Pension Plans (continued)

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

GASB Statement No. 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 the employers. All contributions to date have come solely from the employer (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within thirty years. If the amortization period exceeds thirty 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 fiscal year is included as an intergovernmental payable on both the accrual and modified accrual basis of accounting.

Plan Description - School Employees Retirement System (SERS)

Plan Description - Educational Service Center classified 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. The report can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Age and service requirements for retirement are as follows.

	Eligible to retire on or before August 1, 2017 *	Eligible to retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; 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; Age 60 with 25 years of service credit

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

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

Note 10 - Defined Benefit Pension Plans (continued)

One year after an effective benefit date, a benefit recipient is entitled to a 3 percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

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

The Educational Service Center's contractually required contribution to SERS was $187,325 for fiscal year 2017. Of this amount, $31,739 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Educational Service Center licensed teachers and other certified 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 publicly available stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. The report can be obtained by writing to STRS, 275 East Broad Street, Columbus, Ohio 43215-3771, by calling (888) 227-7877, or by visiting the STRS website at www.strsoh.org.

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

The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2 percent of the original base benefit. For members retiring August 1, 2013, or later, the first 2 percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age sixty with five years of qualifying service credit, at age fifty-five with twenty-six years of service credit, or thirty-one years of service credit 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 sixty-five or thirty-five years of service credit and at least age sixty.

Note 10 - Defined Benefit Pension Plans (continued)

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

The CP offers features of both the DBP and the DCP. In the CP, 12 percent of the 14 percent member rate goes to the DCP and the remaining 2 percent is applied to the DBP. Member contributions to the DCP are allocated among investment choices by the member and contributions to the DBP from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DBP. The defined benefit portion of the CP payment is payable to a member on or after age sixty 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 fifty or later.

New members who choose the DCP or CP will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's CP account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB Statement No. 68 reporting purposes.

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

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

The Educational Service Center's contractually required contribution to STRS was $480,173 for fiscal year 2017. Of this amount, $91,343 is reported as an intergovernmental payable.

Note 10 - Defined Benefit Pension Plans (continued)

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.05281740%	0.02905736%	
Proportion of the Net Pension Liability Current Measurement Date	0.04533470	0.03084212	
Change in Proportionate Share	0.00748270%	0.00178476%	
Proportionate Share of the Net Pension Liability	$3,318,082	$10,323,787	$13,641,869
Pension Expense	$246,258	$657,824	$904,082

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences Between Expected and Actual Experience	$44,753	$417,130	$461,883
Changes of Assumptions	221,500	0	221,500
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	273,694	857,152	1,130,846
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	38,345	409,824	448,169
Educational Service Center Contributions Subsequent to the Measurement Date	187,325	480,173	667,498
Total Deferred Outflows of Resources	$765,617	$2,164,279	$2,929,896
Deferred Inflows of Resources			
Changes in Proportionate Share and Difference Between Educational Service Center Contributions and Proportionate Share of Contributions	$317,782	$619,732	$937,514

Note 10 - Defined Benefit Pension Plans (continued)

$937,514 reported as deferred outflows of resources related to pension resulting from the Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows.

	SERS	STRS	Total
Fiscal Year Ended June 30,			
2018	$36,287	$97,635	$133,922
2019	36,088	97,636	133,724
2020	109,459	426,551	536,010
2021	78,676	442,552	521,228
Total	$260,510	$1,064,374	$1,324,884

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation prepared as of June 30, 2016, compared with June 30, 2015, are presented below.

	June 30, 2016	June 30, 2015
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
COLA or Ad Hoc COLA	3 percent	3 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation
Actuarial Cost Method	entry age normal	entry age normal

Note 10 - Defined Benefit Pension Plans (continued)

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

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

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

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

Discount Rate - The total pension liability was calculated using the discount rate of 7.5 percent. A discount rate of 7.75 percent was used in the prior measurement period. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.5 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - Net pension liability is sensitive to changes in the discount rate and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 7.5 percent as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate.

Note 10 - Defined Benefit Pension Plans (continued)

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$4,392,933	$3,318,082	$2,418,386

Actuarial Assumptions - STRS

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

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022-Scale AA) for males and females. Males ages are set back two years through age eighty-nine and no set back for age ninety and above. Females younger than age eighty are set back four years, one year set back from age eighty through eighty-nine, and no set back from age ninety and above.

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

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

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

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

Note 10 - Defined Benefit Pension Plans (continued)

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's Proportionate Share of the Net Pension Liability	$13,719,474	$10,323,787	$7,459,325

Changes Between Measurement Date and Report Date

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

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2017, three of the Board of Education members have elected Social Security. The Board's liability is 6.2 percent of wages paid.

Note 11 - Postemployment Benefits

School Employees Retirement System (SERS)

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund administered by SERS for classified retirees and their beneficiaries. For GASB Statement No. 45 purposes, this plan is considered a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan. SERS offers several types of health care plans from various venders including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans. A prescription drug program is also available to those who elect health care coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained by visiting the SERS website at www.ohsers.org under employers/audit resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). The 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 establishes 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 basic benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2017, no allocation of covered payroll was allocated to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount; prorated if less than a full year of service credit was earned. For fiscal year 2017, this amount was $23,500. State statute provides that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS covered payroll for the health care surcharge. For fiscal year 2017, the Educational Service Center's surcharge obligation was $23,442.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the amount assigned to the Health Care Fund. The Educational Service Center's contribution for health care for the fiscal years ended June 30, 2017, 2016, and 2015 was $0, $0, and $12,737, respectively. The full amount has been contributed for all three fiscal years.

State Teachers Retirement System (STRS)

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

Note 11 - Postemployment Benefits (continued)

Funding Policy - Ohio Revised Code Chapter 3307 authorizes STRS to offer the health care 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 postemployment health care may be deducted from employer contributions. For fiscal years ended June 30, 2017, 2016, and 2015, STRS did not allocate any employer contributions to postemployment health care.

Note 12 - Other Employee Benefits

A. 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 year, depending on length of service. Accumulated unused vacation time is paid to classified employees and administrators upon termination of employment. Certified employees do not earn vacation time.

Classified and certified employees and administrators earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of two hundred forty-five days for eligible personnel. Upon retirement, payment is made for one-fourth of accrued but unused sick leave credit to a maximum of thirty days. After the thirty-day maximum is achieved, employees are paid one additional day for each year of service with the Educational Service Center, up to a total maximum of forty-eight days. An employee’s severance pay is pro-rated if they have not served five years with the Educational Service Center.

B. Health Care Benefits

The Educational Service Center provides medical, dental, and vision insurance to all employees through the Hancock County Schools Health Benefit Fund. Depending upon the plan chose, the employees share the cost of the monthly premium with the Board. The Educational Service Center also offers life insurance to all employees through the Ohio Schools Council Association Life Insurance Company.

Note 13 - Long-Term Obligations

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

	Balance at 6/30/16	Additions	Reductions	Balance at 6/30/17	Amounts Due Within One Year
Governmental Activities					
Net Pension Liability					
SERS	$3,013,812	$304,270	$0	$3,318,082	$0
STRS	8,030,605	2,293,182	0	10,323,787	0
Total Net Pension Liability	11,044,417	2,597,452	0	13,641,869	0
Compensated Absences	402,106	49,238	5,567	445,777	47,097
Total Governmental Activities	$11,446,523	$2,646,690	$5,567	$14,087,646	$47,097

There is no repayment schedule for the net pension liability; however, employer pension contributions are made from the General Fund and the Other Local Grants and Miscellaneous State Grants special revenue funds.

Compensated absences will be paid from the General Fund.

Note 14 - Fund Balance

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

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Prepaid Items	$15,464	$100	$15,564
Unclaimed Monies	119	0	119
Total Nonspendable	15,583	100	15,683
Restricted for:			
Special Instruction	0	23,711	23,711
Total Restricted	0	23,711	23,711

(continued)

Note 14 - Fund Balance (continued)

Fund Balance	General	Other Governmental	Total Governmental Funds
Assigned for:			
Educational Activities	$1,810	$0	$1,810
Non-Instructional Services	1,604	0	1,604
Unpaid Obligations	45,058	0	45,058
Total Assigned	48,472	0	48,472
Unassigned (Deficit)	736,876	(13)	736,863
Total Fund Balance	$800,931	$23,798	$824,729

Note 15 - Jointly Governed Organizations

A. Northwest Ohio Area Computer Services Cooperative

The Educational Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative (NOACSC), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Auglaize, Hancock, Hardin, Lucas, Mercer, Paulding, Putnam, Seneca, Van Wert, and Wood Counties, and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county. During fiscal year 2017, the Educational Service Center paid $12,688 to NOACSC for various services. Financial information can be obtained from NOACSC, 645 South Main Street, Lima, Ohio 45804.

B. Millstream Career and Technology Center

The Millstream Career and Technology Center is a distinct political subdivision of the State of Ohio established under Section 3313.90 of the Ohio Revised Code. The Career Center provides vocational instruction to students. The Career Center operates under the direction of an Advisory Council consisting of the superintendent of each participating school district and one additional representative appointed by the Findlay City School District. The Superintendents from the Hancock and Putnam County Educational Service Centers serve in an ex-officio capacity for all meetings. Financial information can be obtained from the Findlay City School District, 1100 Broad Avenue, Findlay Ohio 45840.

Note 15 - Jointly Governed Organizations (continued)

C. Hancock County Local Professional Development Committee

The Hancock County Local Professional Development Committee (HCLPDC) was established in 1999 to plan, promote, and facilitate effective and efficient professional educator license renewal standards and staff development activities. The HCLPDC is organized under Ohio laws as a regional council of governments pursuant to a written agreement entered into by its members. The HCLPDC is governed by a thirteen member Executive Board. Financial information can be obtained from the Hancock County Educational Service Center, who serves as fiscal agent, 7746 County Road 140, Findlay, Ohio 45840.

Note 16 - Insurance Pools

A. Schools of Ohio Risk Sharing Authority

The Educational Service Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. SORSA's business and affairs are conducted by a nine member board consisting of Superintendents, Treasurers, and Business Managers. Willis Pooling is contracted to provide reinsurance brokerage, underwriting, rating, billing, consulting services, and establishing agreements between SORSA and its members. Financial information can be obtained by contacting SORSA, 8050 North High Street, Suite 160, Columbus, Ohio 43235-6483.

B. Hancock County Schools Health Benefit Fund

The Hancock County Schools Health Benefit Fund is a public entity shared risk pool consisting of seven local school districts, the Hancock County Educational Service Center, and the Blanchard Valley Board of Developmental Disabilities. The Plan is a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the consultant concerning aspects of the administration of the Plan.

C. Northern Buckeye Education Council Workers' Compensation Group Rating Plan

The Educational Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The Northern Buckeye Education Council Workers' Compensation Group Rating Plan (Plan) was established through the Northern Buckeye Education Council (NBEC) as an insurance purchasing pool. The Plan is governed by the NBEC and the participants of the Plan. The Executive Director of the NBEC coordinates the management and administration of the Plan. Each year, the participants pay an enrollment fee to the Plan to cover the costs of administering the program.

Note 17 - Contingencies

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2017.

B. Litigation

There are currently no matters in litigation with the Educational Service Center as defendant.

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

	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.04533470%	0.05281740%	0.05145300%	0.05145300%
Educational Service Center's Proportionate Share of the Net Pension Liability	$3,318,082	$3,013,812	$2,604,007	$3,059,745
Educational Service Center's Employee Payroll	$1,410,564	$1,553,293	$1,400,771	$1,270,382
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	235.23%	194.03%	185.90%	240.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%

(1) Information prior to 2014 is not available.

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

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

	2017	2016	2015	2014
Educational Service Center's Proportion of the Net Pension Liability	0.30842120%	0.02905736%	0.03264718%	0.03264718%
Educational Service Center's Proportionate Share of the Net Pension Liability	$10,323,787	$8,030,605	$7,940,924	$9,459,177
Educational Service Center's Employee Payroll	$3,334,179	$3,027,143	$3,384,046	$2,990,685
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of Employee Payroll	309.64%	265.29%	234.66%	316.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

Hancock County Educational Service Center
Required Supplementary Information
Schedule of the Educational Service Center's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	2017	2016	2015	2014
Contractually Required Contribution	$187,325	$197,479	$204,724	$183,501
Contributions in Relation to the Contractually Required Contribution	(187,325)	(197,479)	(204,724)	(183,501)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center's Employee Payroll	$1,338,036	$1,410,564	$1,553,293	$1,400,771
Contributions as a Percentage of Employee Payroll	14.00%	14.00%	13.18%	13.10%

See accompanying notes to the required supplementary information.

2013	2012	2011	2010	2009	2008
$166,420	$154,924	$137,939	$145,049	$132,328	$120,555
(166,420)	(154,924)	(137,939)	(145,049)	(132,328)	(120,555)
$0	$0	$0	$0	$0	$0
$1,270,382	$1,219,874	$1,167,985	$1,134,969	$1,455,754	$1,316,103
13.10%	12.70%	11.81%	12.78%	9.08%	9.16%

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

	2017	2016	2015	2014
Contractually Required Contribution	$480,173	$466,785	$423,800	$439,926
Contributions in Relation to the Contractually Required Contribution	(480,173)	(466,785)	(423,800)	(439,926)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center's Employee Payroll	$3,429,807	$3,334,179	$3,027,143	$3,384,046
Contributions as a Percentage of Employee Payroll	14.00%	14.00%	14.00%	13.00%

See accompanying notes to the required supplementary information.

2013	2012	2011	2010	2009	2008
$388,789	$368,333	$345,625	$301,146	$372,991	$330,501
(388,789)	(368,333)	(345,625)	(301,146)	(372,991)	(330,501)
$0	$0	$0	$0	$0	$0
$2,990,685	$2,833,331	$2,658,654	$2,316,508	$2,869,162	$2,542,315
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

Changes in Assumptions - SERS

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

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3 percent	3.25 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent	4 percent to 22 percent
Investment Rate of Return	7.5 percent net of investment expenses, including inflation	7.75 percent net of investment expenses, including inflation

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

Supplemental Section

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

	Budgeted Amounts			Variance with Final Budget Over
	Original	Final	Actual	(Under)
Revenues:				
Intergovernmental			$322,262	
Interest			9,045	
Tuition and Fees			3,291,269	
Customer Services			3,360,316	
Miscellaneous			40,320	
Total Revenues			7,023,212	
Expenditures:				
Current:				
Instruction:				
Regular	$147,998	$147,998	114,418	$33,580
Special	3,202,576	3,202,576	2,840,313	362,263
Support Services:				
Pupils	1,779,302	1,779,301	1,678,669	100,632
Instructional Staff	1,102,639	1,110,339	1,021,382	88,957
Board of Education	61,300	61,300	53,479	7,821
Administration	966,954	980,969	898,964	82,005
Fiscal	318,821	318,821	281,900	36,921
Operation and Maintenance of Plant	118,515	118,515	110,197	8,318
Pupil Transportation	4,000	4,000	2,653	1,347
Central	19,130	19,130	12,510	6,620
Non-Instructional Services	3,169	3,169	1,586	1,583
Extracurricular Activities	0	2,150	2,034	116
Total Expenditures	7,724,404	7,748,268	7,018,105	730,163
Excess of Revenues Over (Under) Expenditures	(7,724,404)	(7,748,268)	5,107	7,753,375
Other Financing Sources:				
Refund of Prior Year Expenditures	0	0	2,125	2,125
Changes in Fund Balance	(7,724,404)	(7,748,268)	7,232	7,755,500
Fund Balance at Beginning of Year	1,370,379	1,370,379	1,370,379	0
Prior Year Encumbrances Appropriated	$34,318	$34,318	34,318	0
Fund Balance at End of Year			$1,411,929	$7,755,500

See Accompanying Notes to the Supplemental Section

Note 1 - Budgetary Process

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

The Educational Service Center's Board does not budget for resources estimated to be received during the fiscal year.

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

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

Note 2 - Budgetary Basis of Accounting

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

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

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

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

Note 2 - Budgetary Basis of Accounting (continued)

The adjustments necessary to reconcile the GAAP and budgetary basis statements are as follows:

Change in Fund Balance

	General Fund
GAAP Basis	$43,637
Increase (Decrease) Due to:	
Revenue Accruals:	
Accrued FY 2016, Received in Cash FY 2017	109,598
Accrued FY 2017, Not Yet Received in Cash	(140,689)
Expenditure Accruals:	
Accrued FY 2016, Paid in Cash FY 2017	(765,792)
Accrued FY 2017, Not Yet Paid in Cash	820,864
Cash Adjustments:	
Unrecorded Activity FY 2016	1,366
Unrecorded Activity FY 2017	13
Prepaid Items	(8,039)
Encumbrances Outstanding at Fiscal Year End (Budget Basis)	(53,726)
Budget Basis	$7,232

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

Hancock County Educational Service Center
Hancock County
7746 County Road 140, Suite A
Findlay, Ohio 45840-1978

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Hancock County Educational Service Center, Hancock County, Ohio (the Center) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 20, 2019, wherein we noted the Center adopted Governmental Accounting Standards Board (GASB) Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber
Auditor of State

Columbus, Ohio

March 20, 2019

OHIO AUDITOR OF STATE
KEITH FABER

HANCOCK COUNTY EDUCATIONAL SERVICE CENTER

HANCOCK 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
APRIL 11, 2019