WARREN COUNTY EDUCATIONAL SERVICE CENTER

Basic Financial Statements

June 30, 2017

PLATTENBURG
Certified Public Accountants

Dave Yost · Auditor of State

Board of Education
Warren County Educational Service Center
1879 Deerfield Road
Lebanon, Ohio 45306

We have reviewed the *Independent Auditor's Report* of the Warren County Educational Service Center, Warren County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2016 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Dave Yost

Dave Yost
Auditor of State

February 13, 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren County Educational Service Center (the Center) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules of pension liabilities and pension contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2017, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 28, 2017

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

Financial Highlights

Key financial highlights for 2017 are as follows:

- Net Position of governmental activities decreased $993,472 which represents a 7% decrease from 2016.

- General revenues accounted for $1,576,700 in revenue or 8% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $19,187,965 or 92% of total revenues of $20,764,665.

- The Center had $21,758,137 in expenses related to governmental activities; $19,187,965 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $1,576,700 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2017?" The Government-wide Financial Statements answers this question. These statements include *all assets and outflows of resources,* and *liabilities* and *inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

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

The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2017 compared to 2016:

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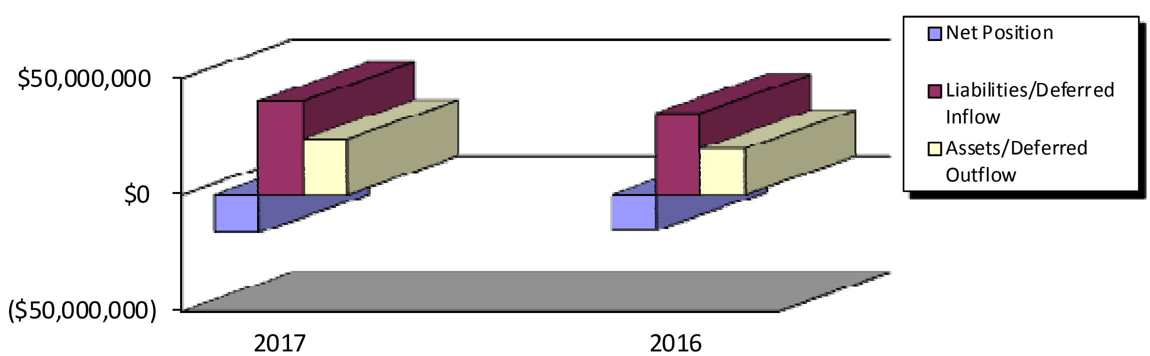
Table 1
Net Position

	Governmental Activities 2017	Governmental Activities 2016
Assets:		
Current and Other Assets	$12,094,797	$12,636,396
Capital Assets	3,286,120	2,812,053
Total Assets	15,380,917	15,448,449
Deferred Outflows of Resources:		
Pension	8,580,771	4,305,629
Total Deferred Outflows of Resources	8,580,771	4,305,629
Liabilities:		
Other Liabilities	1,876,875	1,799,962
Long-Term Liabilities	36,350,818	28,938,426
Total Liabilities	38,227,693	30,738,388
Deferred Inflows of Resources:		
Pension	1,974,146	4,262,369
Total Deferred Inflows of Resources	1,974,146	4,262,369
Net Position:		
Net Investment in Capital Assets	3,286,120	2,812,053
Restricted	550,061	948,536
Unrestricted	(20,076,332)	(19,007,268)
Total Net Position	($16,240,151)	($15,246,679)



Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2017, the Center's assets and deferred outflows of resources were exceeded by liabilities and deferred inflows of resources by $16,240,151.

At year-end, capital assets represented 21% of total assets. Capital assets include land, buildings and improvements, and equipment. Net investment in capital assets at June 30, 2017, was $3,286,120. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, $550,061 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets decreased from 2017 to 2016 mainly due to a decrease in accounts and intergovernmental receivables. Long-term liabilities increased mainly due to an increase in Net Pension Liability.

Table 2 shows the changes in net position for fiscal years 2017 and 2016.

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Table 2
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues:		
Program Revenues		
Charges for Services	$18,211,895	$20,219,504
Operating Grants and Contributions	976,070	1,509,516
General Revenues:		
Grants and Entitlements	871,881	892,389
Other	704,819	315,750
Total Revenues	20,764,665	22,937,159
Program Expenses:		
Instruction	7,623,341	7,178,974
Support Services:		
Pupil and Instructional Staff	9,777,491	8,524,192
School Administrative, General Administration, Fiscal and Business	3,167,675	2,783,809
Operations and Maintenance	357,356	170,906
Pupil Transportation	250,355	141,405
Central	565,133	459,026
Operation of Non-Instructional Services	16,786	24,552
Total Program Expenses	21,758,137	19,282,864
Change in Net Position	(993,472)	3,654,295
Net Position - Beginning of Year	(15,246,679)	(18,900,974)
Net Position - End of Year	($16,240,151)	($15,246,679)

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

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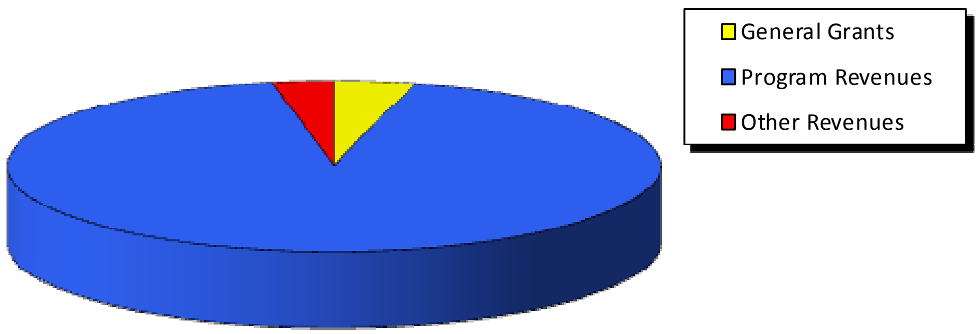
The Center's revenues are demonstrated by the following graph:

Governmental Activities
Revenue Sources

	2017	Percentage
General Grants	$871,881	4.0%
Program Revenues	19,187,965	93.0%
Other Revenues	704,819	3.0%
Total Revenue Sources	$20,764,665	100.0%



Instruction comprises 35% of governmental program expenses. Support services expenses were 65% of governmental program expenses. All other expenses including interest and fiscal charges were less than 1%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Total revenues decreased primarily due to a decrease in charges for services. Overall expenses for the current fiscal year increased when compared to 2016 primarily due to an increase in instruction and support services expenses.

Governmental Activities

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

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Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	$7,623,341	$7,178,974	($634,318)	$555,719
Support Services:				
Pupil and Instructional Staff	9,777,491	8,524,192	(2,042,132)	1,626,060
School Administrative, General Administration, Fiscal and Business	3,167,675	2,783,809	(254,465)	205,103
Operations and Maintenance	357,356	170,906	361,724	35,278
Pupil Transportation	250,355	141,405	(11,479)	14,024
Central	565,133	459,026	13,614	5,452
Operation of Non-Instructional Services	16,786	24,552	(8,848)	(7,730)
Extracurricular Activities	0	0	5,732	12,250
Total Expenses	$21,758,137	$19,282,864	($2,570,172)	$2,446,156

The Center's Major Fund

The Center has two major governmental funds: the General Fund and Miscellaneous Federal Grant Fund. Assets of these funds comprised $ 11,633,830 (96%) of the total $12,176,190 governmental fund assets.

General Fund: Fund balance at June 30, 2017 was $9,596,272, including $9,041,993 of unassigned balance. Fund balance decreased $221,485 from 2016. The primary reason for the decrease in the fund balance was due to a decrease in charges for services.

Miscellaneous Federal Grant Fund: Fund balance at June 30, 2017 was $(33,092), including $(33,429) of unassigned balance. Fund balance increased $3,720 from 2016. The primary reason for the increase in the fund balance was due to an increase in intergovernmental revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2017, the Center had $3,286,120 invested in land, buildings and improvements and equipment. Table 4 shows fiscal 2017 balances compared to 2016:

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

	Governmental Activities	
	2017	2016
Land	$202,980	$202,980
Buildings and Improvements	2,623,457	2,287,879
Equipment	459,683	321,194
Total Net Capital Assets	$3,286,120	$2,812,053

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

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

Debt

At June 30, 2017, the Center had no general obligation debt outstanding.

For the Future

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

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

Contacting the Center's Financial Management

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

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

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	$10,947,482
Receivables:	
Accounts	856,956
Intergovernmental	268,894
Prepaid	21,465
Nondepreciable Capital Assets	202,980
Depreciable Capital Assets, Net	3,083,140
Total Assets	15,380,917
Deferred Outflows of Resources:	
Pension	8,580,771
Total Deferred Outflows of Resources	8,580,771
Liabilities:	
Accounts Payable	89,680
Accrued Wages and Benefits	1,787,195
Long-Term Liabilities:	
Due Within One Year	66,353
Due In More Than One Year:	
Net Pension Liability	34,828,700
Other Amounts	1,455,765
Total Liabilities	38,227,693
Deferred Inflows of Resources:	
Pension	1,974,146
Total Deferred Inflows of Resources	1,974,146
Net Position:	
Net Investment in Capital Assets	3,286,120
Restricted for:	
State Grants	210,277
Other Federal Grants	62,624
Other Grants	277,160
Unrestricted	(20,076,332)
Total Net Position	($16,240,151)

See accompanying notes to the basic financial statements.

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

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$3,923,269	$3,151,190	$93,333	($678,746)
Special	3,558,070	3,518,544	0	(39,526)
Adult/Continuing	142,002	225,956	0	83,954
Support Services:				
Pupil	9,284,021	6,972,338	445,220	(1,866,463)
Instructional Staff	493,470	24,359	293,442	(175,669)
General Administration	52,763	57,279	0	4,516
School Administration	2,251,660	2,095,631	0	(156,029)
Fiscal	827,389	686,537	37,783	(103,069)
Business	35,863	35,980	0	117
Operations and Maintenance	357,356	719,080	0	361,724
Pupil Transportation	250,355	136,184	102,692	(11,479)
Central	565,133	575,147	3,600	13,614
Operation of Non-Instructional Services	16,786	7,938	0	(8,848)
Extracurricular Activities	0	5,732	0	5,732
Totals	$21,758,137	$18,211,895	$976,070	(2,570,172)

General Revenues:	
Grants and Entitlements, Not Restricted	871,881
Investment Earnings	50,061
Other Revenues	654,758
Total General Revenues	1,576,700
Change in Net Position	(993,472)
Net Position - Beginning of Year	(15,246,679)
Net Position - End of Year	($16,240,151)

See accompanying notes to the basic financial statements.

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

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	$10,469,711	$0	$477,771	$10,947,482
Receivables:				
Accounts	844,787	499	11,670	856,956
Intergovernmental	0	216,242	52,652	268,894
Interfund	81,393	0	0	81,393
Prepaid	20,861	337	267	21,465
Total Assets	11,416,752	217,078	542,360	12,176,190
Liabilities:				
Accounts Payable	79,932	7,177	2,571	89,680
Accrued Wages and Benefits	1,736,813	28,106	22,276	1,787,195
Compensated Absences	3,735	3,841	0	7,576
Interfund Payable	0	73,482	7,911	81,393
Total Liabilities	1,820,480	112,606	32,758	1,965,844
Deferred Inflows of Resources:				
Grants	0	137,564	26,726	164,290
Total Deferred Inflows of Resources	0	137,564	26,726	164,290
Fund Balances:				
Nonspendable	20,861	337	267	21,465
Restricted	0	0	472,317	472,317
Committed	48,607	0	15,516	64,123
Assigned	484,811	0	0	484,811
Unassigned	9,041,993	(33,429)	(5,224)	9,003,340
Total Fund Balances	9,596,272	(33,092)	482,876	10,046,056
Total Liabilities, Deferred Inflows and Fund Balances	$11,416,752	$217,078	$542,360	$12,176,190

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balance		$10,046,056
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		3,286,120
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Intergovernmental		164,290
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(1,514,542)
Deferred outflows and inflows or resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	8,580,771	
Deferred inflows of resources related to pensions	(1,974,146)	
		6,606,625
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Net Pension Liability		(34,828,700)
Net Position of Governmental Activities		($16,240,151)

See accompanying notes to the basic financial statements.

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

	General	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and Fees	$293,733	$0	$0	$293,733
Investment Earnings	50,061	0	0	50,061
Intergovernmental	871,881	867,869	455,438	2,195,188
Extracurricular Activities	5,732	0	0	5,732
Charges for Services	17,805,595	0	104,105	17,909,700
Other Revenues	485,348	0	42,457	527,805
Total Revenues	19,512,350	867,869	602,000	20,982,219
Expenditures:				
Current:				
Instruction:				
Regular	3,668,741	0	160,531	3,829,272
Special	3,440,682	0	0	3,440,682
Adult/Continuing	230,712	0	16,661	247,373
Support Services:				
Pupil	8,181,353	416,695	246,818	8,844,866
Instructional Staff	60,895	413,539	95	474,529
General Administration	57,798	0	0	57,798
School Administration	2,050,833	0	0	2,050,833
Fiscal	759,436	33,915	5,405	798,756
Business	35,863	0	0	35,863
Operations and Maintenance	736,249	0	10,000	746,249
Pupil Transportation	50,771	0	197,780	248,551
Central	592,324	0	3,600	595,924
Operation of Non-Instructional Services	7,912	0	8,874	16,786
Total Expenditures	19,873,569	864,149	649,764	21,387,482
Excess of Revenues Over (Under) Expenditures	(361,219)	3,720	(47,764)	(405,263)
Other Financing Sources (Uses):				
Proceeds from Sale of Capital Assets	139,734	0	0	139,734
Total Other Financing Sources (Uses)	139,734	0	0	139,734
Net Change in Fund Balance	(221,485)	3,720	(47,764)	(265,529)
Fund Balance - Beginning of Year	9,817,757	(36,812)	530,640	10,311,585
Fund Balance - End of Year	$9,596,272	($33,092)	$482,876	$10,046,056

See accompanying notes to the basic financial statements.

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

Net Change in Fund Balance - Total Governmental Funds		($265,529)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	606,649	
Depreciation Expense	(122,530)	
		484,119
Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss.		(10,052)
Governmental funds report center pension contributions as expenditures. However in the Statement of Activites, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Center pension contributions	1,704,713	
Cost of benefits earned net of employee contrbutions	(2,440,451)	
		(735,738)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Intergovernmental		(347,236)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated Absences		(119,036)
Change in Net Position of Governmental Activities		($993,472)

See accompanying notes to the basic financial statements.

Warren County Educational Service Center
Statement of Assets and Liabilities
Fiduciary Fund
June 30, 2017

	Agency
Assets:	
Equity in Pooled Cash and Investments	$16,599
Total Assets	16,599
Liabilities:	
Other Liabilities	16,599
Total Liabilities	$16,599

See accompanying notes to the basic financial statements.

Note 1 - Description of the Center

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

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

Reporting Entity

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

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

During fiscal year 2017, the Center was the fiscal agent for the Warren County Family and Children First Council (the FCFC). The FCFC is a separate agency which provides services to qualified Warren County families. The Center maintains Council funds in a separate Agency Fund.

As of June 30, 2017, the Center served as sponsor and fiscal agent for charter schools established under chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of the Center.

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

Jointly Governed Organizations:
- Southwest Ohio Computer Association (SWOCA)
- Southwestern Ohio Educational Purchasing Council (SOEPC)
- Southwest Ohio Council of Governments

Insurance Purchasing Pools:

Southwestern Ohio Educational Purchasing Council Medical Benefits Plan
Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation GRP

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

Note 2 - Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Fund Accounting

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

Governmental Funds

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

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

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

Fiduciary Funds

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

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows/Inflows of Resources

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

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

Expenses/Expenditures

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

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

Equity in Pooled Cash and Investments

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

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

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

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

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

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and expenditure/expense is reported in the year in which the services are consumed.

Capital Assets

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

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

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

Description	Estimated Lives
Buildings and Improvements	10 - 50 years
Equipment	5 - 20 years

Compensated Absences

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

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

Health Care Benefits

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

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

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

Pensions

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

Net Position

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

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's $550,061 in restricted net position, none was restricted by enabling legislation.

Interfund Activity

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

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

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

Fund Balance

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

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

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

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

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

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

The Center considers committed, assigned, and unassigned fund balances, respectively, to be spent when expenditures are incurred for purposes for which any of the unrestricted fund balance classifications could be used.

Estimates

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

Note 3 - Equity in Pooled Cash and Investments

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

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

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

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

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

(1) Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.

(2) Bonds, notes, debentures, or other obligations or securities issued by any federal governmental agency.

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

(4) Interim deposits in the eligible institutions applying for interim monies to be evidenced by time certificates of deposit maturing not more than one year from date of deposit, or by savings or deposit accounts, including, but limited to, passbook accounts.

(5) Bonds, and other obligations of the State of Ohio.

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

(7) Commercial paper and banker's acceptances which meet the requirements established by Ohio Revised Code, Sec. 135.142.

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

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Center's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. As of June 30, 2017, $4,536,293 of the Center's bank balance of $4,843,398 was exposed to custodial risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

Ohio Revised Code Chapter 135, Uniform Depository Act, authorizes pledging of pooled securities in lieu of specific securities. Specifically, a designated public depository may pledge a single pool of eligible securities to secure repayment of all public monies deposited in the financial institution, provided that all times the total value of the securities so pledged is at least equal to 105% of the total amount of all public deposits secured by the pool, including the portion of such deposits covered by any federal deposit insurance.

Investments

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

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	Fair Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
STAR Ohio	$6,459,276	N/A	0.12
Portfolio Weighted Average Maturity			0.12

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Center's recurring fair value measurements as of June 30, 2017. STAR Ohio is reported at its share price (Net Asset Value per share).

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

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

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

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

Note 4 – Receivables

Receivables at June 30, 2017, consisted of accounts, intergovernmental grants, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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Note 5 - Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$202,980	$0	$0	$202,980
Capital Assets, Being Depreciated				
Buildings and Improvements	2,625,251	400,000	12,970	3,012,281
Equipment	803,419	206,649	0	1,010,068
Totals at Historical Cost	3,631,650	606,649	12,970	4,225,329
Less Accumulated Depreciation:				
Buildings and Improvements	337,372	54,370	2,918	388,824
Equipment	482,225	68,160	0	550,385
Total Accumulated Depreciation	819,597	122,530	2,918	939,209
Governmental Activities Capital Assets, Net	$2,812,053	$484,119	$10,052	$3,286,120

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$21,336
Special	13,810
Other Instruction	9,146
Support Services:	
Pupil	3,702
Instructional Staff	179
School Administration	57,218
Fiscal	1,783
Operations and Maintenance	5,215
Pupil Transportation	670
Central	9,471
Total Depreciation Expense	$122,530

Note 6 - Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Net Pension Liability:					
STRS	$24,191,935	$6,689,250	$0	$30,881,185	$0
SERS	3,337,662	609,853	0	3,947,515	0
Total Net Pension Liability	27,529,597	7,299,103	0	34,828,700	0
Compensated Absences	1,408,829	188,757	75,468	1,522,118	66,353
Total Governmental Activities Long-Term Liabilities	$28,938,426	$7,487,860	$75,468	$36,350,818	$66,353

Compensated Absences will be paid from the fund from which the person is paid.

Note 7 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30 or $86.00 multiplied by the years of service credit. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the employer 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 14.00 percent. None of the 14 percent contribution rate was allocated to the Health Care Fund.

The contractually required contribution to SERS was $246,175 for fiscal year 2017. Of this amount $4,064 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement increased effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The employer was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The contractually required contribution to STRS was $1,458,538 for fiscal year 2017. Of this amount $124,005 is reported as accrued wages and benefits.

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

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

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$3,947,515	$30,881,185	$34,828,700
Proportion of the Net Pension Liability Prior Year Measurement Date	0.05393460%	0.09225696%	
Proportion of the Net Pension Liability Current Year Measurement Date	0.05849290%	0.08753436%	
	0.00455830%	-0.00472260%	
Pension Expense	(922,792)	3,363,243	2,440,451

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At June 30, 2017, 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	$53,243	$1,247,748	$1,300,991
Changes of assumptions	263,518	0	263,518
Net difference between projected and actual earnings on pension plan investments	325,613	2,563,968	2,889,581
Changes in employer proportionate share of net pension liability	0	2,421,968	2,421,968
Contributions subsequent to the measurement date	246,175	1,458,538	1,704,713
Total Deferred Outflows of Resources	$888,549	$7,692,222	$8,580,771
Deferred Inflows of Resources			
Changes in employer proportionate share of net pension liability	$1,974,146	$0	$1,974,146
Total Deferred Inflows of Resources	$1,974,146	$0	$1,974,146

$1,704,713 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2018	($746,386)	$1,321,528	$575,142
2019	(746,621)	1,321,528	574,907
2020	67,635	2,305,395	2,373,030
2021	93,600	1,285,233	1,378,833
Total	($1,331,772)	$6,233,684	$4,901,912

Actuarial Assumptions - SERS

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

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

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

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

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

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, with 120% of male rates and 110% of female rates used. The RP-2000 Disabled Mortality Table with 90% for male rates and 100% for female rates set back five years is used for the period after disability retirement. Special mortality tables are used for the period after disability retirement.

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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

Discount Rate

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Proportionate share of the net pension liability	$5,226,264	$3,947,515	$2,877,149

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
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 paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

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

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	1.00	3.00
Total	100.00 %	7.61 %

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 not 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, 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 Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the 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%)
Proportionate share of the net pension liability	$41,038,586	$30,881,185	$22,312,819

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 net pension liability is expected to be significant.

Note 8 - Post Employment Benefits

School Employees Retirement System

Health Care Plan Description – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the year ended June 30, 2017, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at $23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contributions assigned to health care for the years ended June 30, 2017, 2016, and 2015 were $0, $0, and $16,183, respectively.

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.

The financial reports of SERS' Health Care plan are included in its Comprehensive Annual Financial Report. That report can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

State Teachers Retirement System

Plan Description – The Center participates in the cost-sharing multiple-employer defined benefit Health 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 this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board 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. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS did not allocate any employer contributions to post-employment health care. The Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were $0, $0, and $0, respectively.

Note 9 - Contingent Liabilities

Grants

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

However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2017.

Litigation

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

Note 10 - Risk Management

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2017, the Center contracted with Governmental Underwriters of America for property. Coverages provided are as follows:

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

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

For fiscal year 2017, the Center also participated in the Southwestern Ohio Educational Purchasing Council Medical Benefits Plan (MBP), an insurance purchasing pool. The intent of the MBP is to achieve the benefit of reduced health insurance premiums for the Center by virtue of its grouping and representation with other participants in the MBP. The health insurance experience of the participating school districts/centers is calculated and a premium rate is applied to all school districts/centers in the MBP. Each participant pays its health insurance premiums to the EPC. Participation in the MBP is limited to school districts/centers that can meet the MBP's selection criteria.

For fiscal year 2017, the Center also participated in the Southwestern Ohio Educational Purchasing Cooperative Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts/centers is calculated as one experience and a common premium rate is applied to all school districts/centers in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts/centers that can meet the GRP's selection criteria. The firm of Hunter Consulting, Inc. provides administrative, cost control and actuarial services to the GRP.

Note 11 - State Funding

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

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

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

Note 12 – Accountability

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

Fund	Deficit
Miscellaneous Federal Grants	$33,092
Other Government Funds:	
Title I Disadvantaged Children	5,085

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

Note 13 - Interfund Transactions

Interfund transactions at June 30, 2017, consisted of the following interfund receivables and interfund payables:

	Interfund	
	Receivable	Payable
General Fund	$81,393	$0
Miscellaneous Federal Grants	0	73,482
Other Governmental Funds	0	7,911
Total All Funds	$81,393	$81,393

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

Note 14 - Jointly Governed Organization

Southwest Ohio Computer Association

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

Southwestern Ohio Educational Purchasing Council

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

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

Southwest Ohio Council of Governments

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

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

Note 15 –Fund Balances

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

Fund Balances	General	Miscellaneous Federal Grants	Other Governmental Funds	Total
Nonspendable:				
Prepaids	$20,861	$337	$267	$21,465
Total Nonspendable	20,861	337	267	21,465
Restricted for:				
School Bus Driver Training	0	0	89,593	89,593
Other Grants	0	0	262,831	262,831
Miscellaneous State Grants	0	0	119,893	119,893
Total Restricted	0	0	472,317	472,317
Committed to:				
Termination Benefits	48,607	0	0	48,607
WCESC Scholarship	0	0	15,516	15,516
Total Committed	48,607	0	15,516	64,123
Assigned to:				
Public School	98,290	0	0	98,290
Encumbrances	386,521	0	0	386,521
Total Assigned	484,811	0	0	484,811
Unassigned (Deficit)	9,041,993	(33,429)	(5,224)	9,003,340
Total Fund Balance	$9,596,272	($33,092)	$482,876	$10,046,056

Note 16 – Implementation of New Accounting Principals

For the fiscal year ended June 30, 2017, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*, GASB Statement No. 78, *"Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans", GASB Statement No. 80, "Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14" and GASB Statement No. 82, "Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73".*

GASB Statement No. 77 establishes improved financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Disclosure of information about the nature and magnitude of tax abatements will make these transactions more transparent to financial statement users. As a result, users will be better equipped to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic condition. The implementation of GASB Statement No 77 did not have an effect on the financial statements of the Center.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the Center.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

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Required Supplementary Information

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

	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.09225696%	0.08753436%	0.07966238%	0.07966238%
Center's Proportionate Share of the Net Pension Liability	$30,881,185	$24,191,935	$19,376,648	$23,019,178
Center's Covered-Employee Payroll	$10,083,786	$9,231,729	$8,765,392	$8,691,446
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	306.25%	262.05%	221.06%	264.85%
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

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

See accompanying notes to the Required Supplementary Information.

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

	2017	2016	2015	2014
Center's Proportion of the Net Pension Liability	0.05393460%	0.05849290%	0.11762300%	0.11762300%
Center's Proportionate Share of the Net Pension Liability	$3,947,515	$3,337,662	$5,952,833	$6,996,760
Center's Covered-Employee Payroll	$1,681,921	$2,096,305	$3,452,417	$4,423,873
Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	234.70%	159.22%	172.43%	158.16%
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

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

See accompanying notes to the Required Supplementary Information.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$1,458,538	$1,411,730	$1,292,442	$1,139,501	$1,129,888	$1,126,556	$1,099,002	$1,074,347	$990,585	$838,035
Contributions in Relation to the Contractually Required Contribution	(1,458,538)	(1,411,730)	(1,292,442)	(1,139,501)	(1,129,888)	(1,126,556)	(1,099,002)	(1,074,347)	(990,585)	(838,035)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Center Covered-Employee Payroll	$10,418,129	$10,083,786	$9,231,729	$8,765,392	$8,691,446	$8,665,815	$8,453,862	$8,264,208	$7,619,885	$6,446,423
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

See accompanying notes to the Required Supplementary Information.

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually Required Contribution	$246,175	$235,469	$276,293	$478,505	$612,264	$576,842	$586,569	$568,209	$568,131	$572,301
Contributions in Relation to the Contractually Required Contribution	(246,175)	(235,469)	(276,293)	(478,505)	(612,264)	(576,842)	(586,569)	(568,209)	(568,131)	(572,301)
Contribution Deficiency (Excess)	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Center Covered-Employee Payroll	$1,758,393	$1,681,921	$2,096,305	$3,452,417	$4,423,873	$4,288,788	$4,666,420	$4,196,521	$5,773,689	$5,827,912
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%	13.45%	12.57%	13.54%	9.84%	9.82%

See accompanying notes to the Required Supplementary Information.

Note 1 – SERS Change in Assumptions

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2016. For fiscal year 2017, the following changes of assumptions affected the total pension liability since the prior measurement date: (1) discount rate was reduced from 7.75% to 7.50%, (2) the assumed rate of inflation was reduced from 3.25% to 3.00%, (3) payroll growth assumption was reduced from 4.00% to 3.50%, (4) assumed real wage growth was reduced from 0.75% to 0.50%, (5) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (6) mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females, (7) mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates and (8) mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

Note 2 – STRS Change in Assumptions

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014 - 2017.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014 - 2017. See the notes to the basic financials for the methods and assumptions in this calculation.

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

Warren County
WCESC
Educational Service Center

Single Audit Report

June 30, 2017

PLATTENBURG
Certified Public Accountants

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WARREN COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education:			
Safe and Drug-Free Schools and Communities National Programs	3GP0	84.184	6,002
Title I Grants to Local Educational Agencies	3M00	84.010	65,689
Passed Through Family and Children First Council, Warren County:			
Special Education - Grants for Infants and Families	FCFC1	84.181	300,675
Total Department of Education			372,366
U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			
Passed Through Ohio Department of Education:			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	3GQ0	93.243	397,424
Total Department of Health & Human Services			397,424
Total Federal Assistance			$769,790

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Warren County Educational Service Center (the Center), as of and for the year ended June 30, 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 December 28, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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Purpose of this Report

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 28, 2017

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

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

Report on Compliance for Each Major Federal Program

We have audited the Warren County Educational Service Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2017. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Center, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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

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

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Center, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements. We issued our report thereon dated December 28, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 28, 2017

WARREN COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

Section I – Summary of Auditor's Results

<u>Financial Statements</u>

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant Deficiency(s) identified?	None reported
Noncompliance material to financial statements noted?	No

<u>Federal Awards</u>

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant Deficiency(s) identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major federal programs:	
Substance Abuse and Mental Health Services Project of Regional and National Significance CFDA 93.243	
Dollar threshold used to distinguish between Type A and Type B Programs	$750,000
Auditee qualified as low-risk auditee?	No

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

None

Section III – Federal Award Findings and Questioned Costs

None

WARREN COUNTY EDUCATIONAL SERVICE CENTER
June 30, 2017

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

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

The Warren County Educational Service Center did not require a single audit in the prior year.

WARREN COUNTY EDUCATIONAL SERVICE CENTER

WARREN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 27, 2018