GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements:	
Balance Sheet - Governmental Funds	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Fiduciary Net Position – Fiduciary Funds	22
Notes to the Basic Financial Statements	23
Required Supplementary Information:	
Schedules of the Educational Service Center's Proportionate Share of the Net Pension Liability:	
School Employees Retirement System (SERS) of Ohio	62
State Teachers Retirement System (STRS) of Ohio	64
Schedules of Educational Service Center Pension Contributions:	
School Employees Retirement System (SERS) of Ohio	66
State Teachers Retirement System (STRS) of Ohio	68
Schedules of the Educational Service Center's Proportionate Share of the Net OPEB Liability:	
School Employees Retirement System (SERS) of Ohio	70
State Teachers Retirement System (STRS) of Ohio	71

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Prepared by Management – (Continued):	
Required Supplementary Information - (Continued)	
Schedules of Educational Service Center OBEB Contributions:	
School Employees Retirement System (SERS) of Ohio	72
State Teachers Retirement System (STRS) of Ohio	74
Notes to Required Supplementary Information	76
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*	79

INDEPENDENT AUDITOR'S REPORT

Geauga County Educational Service Center
Geauga County
470 Center Street, Building # 2
Chardon, Ohio 44024

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2018, the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* Additionally, the Center's fiduciary fund Net Position was restated to account for a fund-type accounting revision. We did not modify our opinion regarding these matters.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2019, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

February 5, 2019

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GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

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

Financial Highlights

Key financial highlights for 2018 are as follows:

- In total, net position of governmental activities increased $7,371,535 which represents a 28.66% percent increase from fiscal year 2017's restated net position. The significant increase in net position is primarily due to the reduction in the net pension liability.

- General revenues accounted for $271,218 in revenue or 2.54 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $10,393,827 or 97.46 percent of total revenues of $10,665,045.

- The Educational Service Center had $3,293,510 in expenses related to governmental activities, which were all offset by program specific charges for services, grants or contributions to support the Educational Service Center's programs.

- The Educational Service Center's major governmental fund is the general fund. The general fund had $10,655,223 in revenues and $10,471,583 in expenditures. During fiscal year 2018, the general fund's fund balance increased $183,640 from a balance of $1,061,703 to $1,245,343.

Using these Basic Financial Statements

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

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole contains all financial transactions and asks the question, "How did the Educational Service Center perform financially during 2018?" The statement of net position and the statement of activities answer this question. These statements include all (non-fiduciary) assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, and expenses using the accrual basis of accounting, similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Educational Service Center's net position and changes in net position. The change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial condition of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Educational Service Center's facility conditions, required educational programs and other factors.

In the statement of net position and the statement of activities, the governmental activities include the Educational Service Center's programs and services, including instruction, support services, operation and maintenance of plant, and pupil transportation.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

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

Governmental Funds

Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets than can readily be converted to cash. The governmental fund financial statements provide a detailed short-term view of the Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps to 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 basic financial statements.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the net pension liability and net OPEB liability in this report after the notes to the basic financial statements.

The Educational Service Center as a Whole

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole. The table below provides a summary of the Educational Service Center's net position for 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Assets		
Current and other assets	$ 2,543,432	$ 2,661,611
Capital assets	8,192	13,458
Total assets	2,551,624	2,675,069
Deferred outflows of resources		
Pension	4,716,624	4,545,364
OPEB	170,417	39,217
Total deferred outflows of resources	4,887,041	4,584,581
Liabilities		
Current liabilities	974,802	1,014,929
Long-term liabilities:		
Due within one year	94,520	101,932
Due in more than one year:		
Net pension liability	16,988,938	25,607,318
Net OPEB liability	4,113,521	5,510,889
Other amounts	260,467	327,022
Total liabilities	22,432,248	32,562,090
Deferred inflows of resources		
Pension	2,473,435	414,046
OPEB	877,933	-
Total deferred inflows of resources	3,351,368	414,046
Net Position		
Net investment in capital assets	8,192	13,458
Restricted	21,305	26,941
Unrestricted (deficit)	(18,374,448)	(25,756,885)
Total net position (deficit)	$ (18,344,951)	$ (25,716,486)

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

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

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

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

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

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

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

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

As a result of implementing GASB 75, the Educational Service Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from $(20,244,814) to $(25,716,486).

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2018, the Educational Service Center's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $18,344,951. Of this total, a deficit of $18,374,448 is unrestricted in use, which is a result of reporting the net pension liability required by GASB Statement No. 68.

At year-end, capital assets represented 0.32% percent of total assets. Capital assets include furniture, fixtures and equipment. The Educational Service Center's investment in capital assets at June 30, 2018, was $8,192. These capital assets are used to provide services to the students and are not available for future spending.

A portion of the Educational Service Center's net position, $21,305 represents resources that are subject to external restriction on how they may be used.

Current assets decreased from June 30, 2017, primarily due to a decrease in the amount of intergovernmental receivable reported for customer sales and services at June 30, 2018.

Governmental Activities

The net position of the Educational Service Center's governmental activities increased $7,371,535. Total governmental expenses of $3,293,510 were offset by program revenues of $10,393,827 and general revenues of $271,218. Program revenues supported 100 percent of the total governmental expenses for fiscal year 2018.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 95.46 percent of total governmental revenue. During fiscal year 2018, the Educational Service Center collected more charges for services revenue and operating grant revenue. The increased charges for services and sales revenue can be attributed to more revenues generated from additional services offered to participating districts. The Educational Service Center received state and federal grant funding through the Early Childhood Entitlement, Alternative School, Competency Based Education, Parent Mentor, and Preschool IDEA programs.

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018
(UNAUDITED)

The table below shows the changes in net position for fiscal years 2018 and 2017. The net position at June 30, 2017 has been restated as described in Note 3.A.

Changes in Net Position

	Governmental Activities 2018	Restated Governmental Activities 2017
Revenues		
Program Revenues:		
Charges for services and sales	$ 10,180,381	$ 11,703,985
Operating grants and contributions	213,446	394,378
General revenues:		
Grants and entitlements	114,608	147,833
Investment earnings	3,821	3,021
Miscellaneous	152,789	193,379
Total revenues	10,665,045	12,442,596
Expenses		
Program expenses:		
Instruction:		
Regular	8,320	171,854
Special	1,821,074	5,286,613
Vocational	287,495	445,965
Support services:		
Pupil	384,828	3,741,064
Instructional staff	245,001	629,902
Board of education	105,584	27,117
Administration	128,286	1,479,971
Fiscal	98,777	297,941
Business	31,277	34,089
Operations and maintenance	42,026	84,693
Pupil transportation	3,852	4,693
Central	136,990	335,192
Total expenses	3,293,510	12,539,094
Change in net position	7,371,535	(96,498)
Net position (deficit) at beginning of year (restated)	(25,716,486)	N/A
Net position (deficit) at end of year	$ (18,344,951)	$ (25,716,486)

The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of $39,217 computed under GASB 45. GASB 45 required recognizing OPEB expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $597,701. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$ 3,293,508
Negative OPEB expense under GASB 75	597,701
2018 contractually required contributions	52,934
Adjusted 2018 program expenses	3,944,143
Total 2017 program expenses under GASB 45	12,539,094
Decrease in program expenses not related to OPEB	$ (8,594,951)

Net position of the Educational Service Center's governmental activities increased $7,371,535. Total governmental expenses of $3,293,508 were offset by program revenues of $10,393,827 and general revenues of $271,218. Program revenues supported 100% of the total governmental expenses.

Expenses of the governmental activities decreased $9,245,586 or 73.73%. This decrease is primarily the result of the State Teachers Retirement System (STRS) indefinitely suspending the Cost of Living Adjustment ("COLA") and the School Employees Retirement System (SERS) lowering the COLA from 3.00% to 2.50%. On an accrual basis, the Educational Service Center reported ($5,637,833) in pension expense and ($52,934) in OPEB expense mainly due to these benefit changes.

The primary sources of revenue for governmental activities are derived from charges for services and sales. This revenue source represents 95.46% of total governmental revenue.

The largest expense of the Educational Service Center is for instructional services. Support services expenses totaled $2,116,889 or 64.27% of total governmental expenses for fiscal year 2018.

The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Program expenses				
Instruction:				
Regular	$ 8,320	$ (20,060)	$ 171,854	$ 35,831
Special	1,821,074	(2,839,314)	5,286,613	89,416
Vocational	287,495	(349,600)	445,965	1,084
Support services:				
Pupil	384,828	(2,591,360)	3,741,064	103,664
Instructional staff	245,001	(213,827)	629,902	21,035
Board of education	105,584	77,311	27,117	493
Administration	128,286	(896,368)	1,479,971	94,741
Fiscal	98,777	(206,508)	297,941	5,057
Business	31,277	2,063	34,089	(354)
Operations and maintenance	42,026	(1,329)	84,693	(718)
Pupil transportation	3,852	1,910	4,693	1,752
Central	136,990	(63,235)	335,192	88,730
Total expenses	$ 3,293,510	$ (7,100,317)	$ 12,539,094	$ 440,731

Governmental activities were supported by program revenues for 100 percent of the total governmental activities expenses for fiscal year 2018. The primary support of the Educational Service Center is tuition and contracted fees for services provided to school districts.

The Educational Service Center's Funds

The Educational Service Center's governmental funds reported a combined fund balance of $1,265,433, which is higher than last year's total of $1,051,598. The schedule below indicates the fund balances and the changes in fund balances as of June 30, 2018 and 2017.

Funds	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Change
General	$ 1,245,343	$ 1,061,703	$ 183,640
Nonmajor governmental	20,090	(10,105)	30,195
Total	$ 1,265,433	$ 1,051,598	$ 213,835

General Fund

The Educational Service Center's general fund balance increased $183,640. The table that follows shows the revenues of the general fund for fiscal years 2018 and 2017.

Revenues	2018 Amount	2017 Amount	Increase (Decrease)	Percentage Change
Tuition	$ 864,223	$ 1,215,259	$ (351,036)	(28.89) %
Earnings on investments	3,821	3,021	800	26.48 %
Customer sales and services	9,518,932	10,295,129	(776,197)	(7.54) %
Intergovernmental	114,608	147,833	(33,225)	(22.47) %
Other revenues	153,639	193,379	(39,740)	(20.55) %
Total	$ 10,655,223	$ 11,854,621	$ (1,199,398)	(10.12) %

Overall, revenues of the general fund decreased 10.12 percent during fiscal year 2018. Tuition and customer sales and services revenue decreased as a result of less revenue generated from services provided to participating districts. Intergovernmental revenue increased due to more less received through state foundation. Other revenues decreased from refunds and reimbursements received during fiscal year 2018.

Expenditures	2018 Amount	2017 Amount	Increase (Decrease)	Percentage Change
Instruction	$ 5,410,248	$ 5,505,521	$ (95,273)	(1.73) %
Support services	5,061,335	5,882,618	(821,283)	(13.96) %
Total	$ 10,471,583	$ 11,388,139	$ (916,556)	(8.05) %

Instruction expenditures and support services decreased 8.05 percent from fiscal year 2017 due to a reduction in programs provided to member districts during fiscal year 2018.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2018 the Educational Service Center had $8,192 invested in furniture, fixtures and equipment. The table that follows shows the balances of the Educational Service Center's capital assets at June 30, 2018 compared to balances at June 30, 2017.

Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2018	2017
Furniture, fixtures, and equipment	$ 177,810	$ 185,419
Less: accumulated depreciation	(169,618)	(171,961)
Total	$ 8,192	$ 13,458

The overall decrease in capital assets during fiscal year 2018 resulted from depreciation expense of $5,266 and disposals of $7,609 (which were fully depreciated).

See Note 8 to the basic financial statements for additional information on the Educational Service Center's capital assets.

Debt Administration

The Educational Service Center had no debt obligations outstanding as of June 30, 2018.

Current Financial Related Activities

Geauga County Educational Service Center is financially sound. The Board and administration closely monitor its revenue and expenditures in accordance with Board policy. The Educational Service Center is committed to serving its local school districts and will continue to do so. While so many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our member districts and other interested parties with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact: Ms. Sue Sotkovsky, Treasurer of the Geauga County Educational Service Center, at 470 Center Street, Building #2, Chardon, Ohio 44024-1068 or call 440-279-1700.

BASIC
FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	$ 1,760,424
Receivables:	
Intergovernmental	783,008
Capital assets:	
Depreciable capital assets, net	8,192
Total assets.	2,551,624
Deferred outflows of resources:	
Pension	4,716,624
OPEB	170,417
Total deferred outflows of resources	4,887,041
Liabilities:	
Accounts payable.	20,689
Accrued wages and benefits payable	761,011
Intergovernmental payable	158,548
Matured compensated absences payable	34,554
Long-term liabilities:	
Due within one year	94,520
Due in more than one year:	
Net pension liability (See Note 10)	16,988,938
Net OPEB liability (See Note 11)	4,113,521
Other amounts due in more than one year .	260,467
Total liabilities	22,432,248
Deferred inflows of resources:	
Pension.	2,473,435
OPEB	877,933
Total deferred inflows of resources	3,351,368
Net position:	
Net investment in capital assets	8,192
Restricted for:	
State funded programs.	12,854
Other purposes.	8,451
Unrestricted (deficit)	(18,374,448)
Total net position (deficit).	$ (18,344,951)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	**Charges for Services and Sales**	**Operating Grants and Contributions**	**Governmental Activities**
Governmental activities:				
Instruction:				
Regular	$ 8,320	$ 14,847	$ 13,533	$ 20,060
Special	1,821,074	4,590,313	70,075	2,839,314
Vocational	287,495	637,095	-	349,600
Support services:				
Pupil	384,828	2,940,679	35,509	2,591,360
Instructional staff	245,001	412,029	46,799	213,827
Board of education	105,584	28,273	-	(77,311)
Administration	128,286	979,116	45,538	896,368
Fiscal	98,777	305,285	-	206,508
Business	31,277	29,214	-	(2,063)
Operations and maintenance	42,026	43,355	-	1,329
Pupil transportation	3,852	1,942	-	(1,910)
Central	136,990	198,233	1,992	63,235
Total governmental activities	$ 3,293,510	$ 10,180,381	$ 213,446	7,100,317
General revenues:				
Grants and entitlements not restricted to specific programs				114,608
Investment earnings				3,821
Miscellaneous				152,789
Total general revenues				271,218
Change in net position				7,371,535
Net position (deficit) at beginning of year (restated)				(25,716,486)
Net position (deficit) at end of year				$ (18,344,951)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash			
and cash equivalents.	$ 1,739,891	$ 20,533	$ 1,760,424
Receivables:			
Intergovernmental.	782,236	772	783,008
Due from other funds	443	-	443
Total assets	$ 2,522,570	$ 21,305	$ 2,543,875
Liabilities:			
Accounts payable	$ 20,689	$ -	$ 20,689
Accrued wages and benefits payable	761,011	-	761,011
Intergovernmental payable	158,548	-	158,548
Compensated absences payable	34,554	-	34,554
Due to other funds.	-	443	443
Total liabilities.	974,802	443	975,245
Deferred inflows of resources:			
Intergovernmental revenue not available.	-	772	772
Miscellaneous revenue not available.	302,425	-	302,425
Total deferred inflows of resources	302,425	772	303,197
Fund balances:			
Restricted:			
State funded programs	-	12,082	12,082
Other purposes.	-	8,451	8,451
Assigned:			
Student instruction	81,165	-	81,165
Student and staff support.	43,237	-	43,237
Unassigned	1,120,941	(443)	1,120,498
Total fund balances.	1,245,343	20,090	1,265,433
Total liabilities, deferred inflows of resources and fund balances	$ 2,522,570	$ 21,305	$ 2,543,875

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2018

Total governmental fund balances		$ 1,265,433
Amounts reported for governmental activities on 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.		8,192
Other long-term assets (intergovernmental receivables) are not available to pay for current period expenditures and therefore are deferred inflows in the funds.		303,197
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:		
Deferred outflows of resources - pension	4,716,624	
Deferred inflows of resources - pension	(2,473,435)	
Net pension liability	(16,988,938)	
Total		(14,745,749)
The net OPEB liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows of resources are not reported in governmental funds:		
Deferred outflows of resources - OPEB	170,417	
Deferred inflows of resources - OPEB	(877,933)	
Net OPEB liability	(4,113,521)	
Total		(4,821,037)
Long-term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.		(354,987)
Net position (deficit) of governmental activities		$ (18,344,951)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
From local sources:			
Customer sales and services	$ 9,518,932	$ -	$ 9,518,932
Tuition	864,223	-	864,223
Earnings on investments	3,821	-	3,821
Classroom materials and fees	850	-	850
Contributions and donations	57,410	4,826	62,236
Other local revenues	95,379	22,624	118,003
Intergovernmental - state	114,608	106,027	220,635
Intergovernmental - federal	-	116,243	116,243
Total revenues	10,655,223	249,720	10,904,943
Expenditures:			
Current:			
Instruction:			
Regular	1,458	16,776	18,234
Special	4,723,758	70,075	4,793,833
Vocational	685,032	-	685,032
Support services:			
Pupil	3,051,876	35,952	3,087,828
Instructional staff	409,368	48,860	458,228
Board of education	116,760	-	116,760
Administration	890,048	45,536	935,584
Fiscal	307,389	-	307,389
Business	30,976	-	30,976
Operations and maintenance	44,066	-	44,066
Pupil transportation	2,016	-	2,016
Central	208,836	2,326	211,162
Total expenditures	10,471,583	219,525	10,691,108
Net change in fund balances	183,640	30,195	213,835
Fund balances (deficit) at beginning of year	1,061,703	(10,105)	1,051,598
Fund balances at end of year	$ 1,245,343	$ 20,090	$ 1,265,433

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds		$	213,835
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.			
Current year depreciation	(5,266)		
Total			(5,266)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			
Customer sales and services	(203,624)		
Intergovernmental	(36,274)		
Total			(239,898)
Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.			1,092,418
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.			5,637,833
Contractually required OPEB contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows.			52,934
Except for amounts reported as deferred inflows/outflows, changes in the net OPEB liability are reported as pension expense in the statement of activities.			597,701
Some expenses reported in the statement of activities (compensated absences), do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			21,978
Change in net position of governmental activities		$	7,371,535

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	Agency Funds
Assets:	
Equity in pooled cash	
and cash equivalents	$ 2,951,062
Total assets.	$ 2,951,062
Liabilities:	
Intergovernmental payable	2,951,062
Total liabilities	$ 2,951,062

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Geauga County Schools' Educational Service Center (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 1, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological, and other needed services to local school districts in Geauga County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's instructional/support facilities staffed by 56 noncertified, 100 certified staff that provides services to 10,333 students through the school districts in Geauga County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Educational Service Center have been prepared in conformity with accounting principles generally accepted in the United States of America (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 Educational Service Center's significant accounting policies are described below.

A. Reporting Entity

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

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

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations and an insurance purchasing pool. These organizations are presented in Note 13 to the basic financial statements. These organizations include the Lake-Geauga Computer Association and the Ohio School Boards Association Workers Compensation Group Rating Program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation

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

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

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

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

C. Fund Accounting

The Educational Service 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 Educational Service Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Educational Service Center are grouped into the categories governmental and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental 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 liabilities is reported as fund balance. The following is the Educational Service Center's major governmental fund:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

General Fund - The general fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

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

FIDUCIARY FUND TYPE

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

D. Measurement Focus

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

The statement of net position presents the financial condition of the governmental activities of the Center at fiscal year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of the Educational Service Center are included on the statement of net position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Financial Statements - During the year, the Educational Service Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Educational Service Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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

E. 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.

Revenues - Exchange and Nonexchange Transactions - Revenues 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 Educational Service Center, available means expected to be received within sixty days of fiscal year end.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the government-wide statement of net position will report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, see Notes 10 and 11 for deferred outflows of resources related the Educational Service Center's net pension liability and net OPEB liability, respectively.

In addition to liabilities, both the government-wide statement of net position and the governmental fund financial statements report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center unavailable revenue includes, but is not limited to, customer sales and services and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

For the Educational Service Center, see Notes 10 and 11 for deferred inflows of resources related to the Educational Service Center's net pension liability and net OPEB liability, respectively. This deferred inflow of resources is only reported on the government-wide statement of net position.

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

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

F. Budgetary Data

In fiscal year 2004, the Educational Service Center's requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Educational Service Center is discretionary, the Educational Service Center's Board does approve appropriations for all funds for control purposes. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Educational Service Center Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Educational Service Center's Board. The level of control has been established by the Educational Service Center's Board at the fund, function and object level for the general fund and the fund level for all other funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The Educational Service Center has elected to not present budgetary schedules as supplementary information for the general fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

G. Cash and Cash Equivalents

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

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2018, the general fund received interest earned in the amount of $3,821 which includes $503 assigned from other funds.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. The Educational Service Center had no prepaid items at June 30, 2018.

I. Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center's capitalization threshold is $1,000. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives for furniture and fixtures of five to ten years.

J. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans and cash deficits among the governmental activities are classified as "due to/from other funds". These amounts are eliminated in the governmental activities column on the statement of net position.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements or fiduciary fund statement of net position.

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

M. Interfund Transactions

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 basic financial statements.

N. Net Position

Net position represents the difference between assets and liabilities. Net investments in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments.

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

O. Fund Balance

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Educational Service Center's Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not constrained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

P. 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Q. Pensions/Other Postemployment Benefits (OPEB)

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

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. During fiscal year 2018, the Educational Service Center had neither type of transaction.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles/Restatement of Net Position

For fiscal year 2018, the Educational Service Center has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*", GASB Statement No. 81 *"Irrevocable Split-Interest Agreements"* GASB Statement No. 85, *"Omnibus 2017"* and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the Educational Service Center's postemployment benefit plan disclosures, as presented in Note 11 to the basic financial statements, and added required supplementary information which is presented on pages 65 - 70 and page 72.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the financial statements of the Educational Service Center.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Educational Service Center.

A net position restatement is required in order to implement GASB Statement No 75. The governmental activities at July 1, 2017 have been restated as follows:

	Governmental Activities
Net position as previously reported	$ (20,244,814)
Deferred outflows - payments subsequent to measurement date	39,217
Net OPEB liability	(5,510,889)
Restated net position at July 1, 2017	$ (25,716,486)

B. Fund Reclassification/Restatement of Net Position

A fund reclassification was required to properly report the activity of the Lake-Geauga Computer Association, which was previously reported in an investment trust fund. The Educational Service Center is the fiscal agent for the Lake-Geauga Computer Association; however, the primary purpose for the relationship is not the generation of income; therefore, the activity is properly reported in an agency fund.

The fund reclassification had the following effect on net position as previously reported:

	Investment Trust
Net position as previously reported	$ 2,413,088
Fund reclassification:	
Lake-Geauga Computer Association	(2,413,088)
Restated net position at July 1, 2017	$ -

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Deficit Fund Balance

Fund balances at June 30, 2018 included the following individual fund deficit:

Nonmajor funds	Deficit
IDEA Part B	$ 443

The general fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies are to be deposited or invested in the following securities:

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

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

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;

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

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

6. The State Treasury Asset Reserve of Ohio; (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days in an amount not to exceed 25 percent of the interim moneys available for investment at any one time; and,

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, 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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made 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.

A. Deposits

At June 30, 2018, the carrying amount of all the Educational Service Center deposits, was $4,711,495. Of the bank balance, $736,755 was covered by the FDIC and $4,462,791 was covered by the Ohio Pooled Collateral System (OPCS).

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Educational Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Educational Service Center and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the Educational Service Center's financial institutions were approved for a collateral rate through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The Educational Service Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

B. Investments

As of June 30, 2018, the Educational Service Center had no outstanding investments.

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The Educational Service Center's investment policy does not specifically address credit risk beyond requiring the Educational Service Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Educational Service Center places no limit on the amount that may be invested to any one issue.

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 2018, as reported on the fund financial statements, consist of the following amount due to/from other funds:

Receivable fund	Payable funds	Amount
General	Nonmajor fund:	
	IDEA Part B	$ 443

The primary purpose of the due to/from other funds is to cover the negative cash balances at fiscal year-end in the nonmajor governmental fund. The interfund balances will be repaid once the anticipated revenues are received. For this fund, cash requests were submitted before June 30, 2018 to cover the reimbursable federal grant.

NOTE 6 - RECEIVABLES

Receivables at June 30, 2018 consisted of intergovernmental receivables (excess costs and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full. A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Customer Sales & Services	$ 717,182
State Foundation	
iSTEM Geauga Early College High School	65,054
Nonmajor Governmental Funds:	
Grants:	
Miscellaneous State	772
Total Intergovernmental Receivables	$ 783,008

NOTE 7 - STATE AND LOCAL FUNDING

The main sources of revenues of Educational Service Center (ESC) funding are the local funds that are deducted from the state foundation funding of the client districts and transferred to the ESC under ORC Sections 3313.843 or 3313.845 as well as state funds that are distributed directly to the ESCs based on parameters listed in Ohio Revised Code (ORC) Sections 263.220 and 263.390. Additionally, ESCs can apply to any state or federal agency for competitive grants.

A. State Funding

ORC Sections 263.220 and 263.390 provide for direct state funding of the ESCs for the general purpose of program maintenance and service delivery to client school districts.

State Per-Pupil Funding - This funding materializes in the form of a per-pupil amount applied to the same student count extracted from the latest Report Card. For the purposes of this funding, the law distinguishes the ‘High Performing’ ESCs pursuant to Rule 3301-105-01 of the Administrative Code from the other ESCs and applies two per-pupil amounts to their state funding based on that distinction. High Performing ESCs are granted a per-pupil amount of $26.00 while other ESCs’ state funding is based on the per-pupil amount of $24.00. The law provides for $40,000,000 in each fiscal year (FY18 and FY19) to be set aside from the Foundation Funding (line item 200-550) for this purpose. As the appropriation for this funding is set and the funding is based on a constant per-pupil amount, it is often necessary and authorized by law for the fund distribution to be prorated in order to stay within the appropriations. Obviously as the data changes during the course of a fiscal year, so does the proration rate to maintain the appropriated levels.

State Gifted Funding - Another component of the state funding of ESCs is for gifted education. Under this section of the law the Ohio Department of Education (ODE) is authorized to set aside $3,800,000 of the total statewide appropriation slated for Foundation Funding for ESC gifted education. ODE is to distribute this funding through the unit-based funding methodology in place under ORC Section 3317.024(L), ORC Section 3317.05(E) and ORC Section 3317.035(A), (B) and (C) as they existed prior to fiscal year 2010. These sections of the law provide for the cost of each gifted unit to be predicated on the salary and fringes of the full time equivalent of the personnel involved at 15% of the salary figure as well as any additional unit allowances the law allows. The law also provides for the proration of the resulting state funding if the appropriation is not sufficient.

NOTE 7 - STATE AND LOCAL FUNDING - (Continued)

In addition to the above-mentioned funding from the state, ESCs also receive funding to cover the costs associated with the transportation of special needs students and for special equipment needed for such transportation. This aid is calculated as the lesser of the actual cost reported or the sum of $6 per pupil per day plus half of the amount by which the actual cost exceeds $6 per pupil per day. The state covers 60% of this amount.

B. Local Funding

ORC Section 3313.843 Contracts

Presently the law provides that city, exempted village and local school districts with an average daily enrollment of 16,000 or less must enter into an agreement with an ESC under ORC Section 3313.843. The services the ESC provides to the client district under this section may include a variety of services including special education for students with special needs. Since ESCs have no legal taxing or bonding authority they must depend on revenues from member school districts.

Local Per-Pupil Funding - ORC Section 3313.843(H) provides that pursuant to provisions of ORC Section 3317.023 the Ohio Department of Education annually shall deduct from each school district that enters into an agreement with an ESC under this section, a per-pupil amount of $6.50 or an alternative amount in excess of $6.50 if agreed upon by both the ESC and the client districts to be paid to the ESC. The per-pupil amount is multiplied by the school age students count of the client district as reported on the latest Report Card.

Local Preschool Funding - In addition to services provided to school age children, ESCs can also provide preschool services to children with disabilities who are under the age of 6 and are not enrolled in kindergarten. Under the provisions of ORC 3317.0213, the ODE shall compute and pay additional state aid to school districts for preschool children with disabilities. The state funding for preschool services goes directly to the school district based on the count of students the district reports. The district can choose to provide the services itself or contract with an ESC. Preschool funding will be calculated based on parameters specified in ORC Section 3317.0213(A). If the district provides the services itself, then the funding will remain with the district. If on the other hand the district contracts with an ESC, the calculated funding will be deducted from the foundation payment of the district and sent to the ESC.

School districts and ESCs can also agree on an alternative payment mechanism or they can agree on bypassing ODE altogether and base the payments directly from the district to the ESC. Should the district use these services for the preschool children and have ODE deduct the foundation from its foundation funding, the ESC funding will be based on a constant per-pupil amount of $4,000 applied to the total count of all preschool children with disabilities plus special education per-pupil amounts as specified in the law, applied to each one of the 6 categories of special education preschool children. For this purpose special education preschool children are classified into 6 categories in accordance with their handicapping condition. The law provides for a unique per-pupil amount for each one of the categories that is applied at 50% strength to the number of children in the respective category. To wealth equalize this funding he law also calls for the application of the state share index which is the measure of the state contribution to the foundation formula of the district to this part of the funding calculation.

NOTE 7 - STATE AND LOCAL FUNDING - (Continued)

ORC Section 3313.845 Contracts

Service Contracts - In addition to service contracts under ORC Section 3313.843, districts may set up contracts with ESCs for various services based on agreed upon fees beyond those covered by ORC Section 3313.843 contracts. Funds for those contractual services can be deducted from contracting school districts' foundation calculation and sent to the appropriate ESCs. To receive payment for these contracts an ESC must furnish the ODE with a copy of the contract or a written statement clearly indicating the amount of the contract for each contracting school district. ESCs also have the option of billing school districts directly for these contracts instead of having the state deduct the contract amounts from their foundation funding.

NOTE 8 - CAPITAL ASSETS

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

	Balance 7/1/2017	Additions	Deductions	Balance 6/30/18
Governmental activities:				
Capital assets, being depreciated:				
Furniture, fixtures and equipment	$ 185,419	$ -	$ (7,609)	$ 177,810
Total capital assets, being depreciated	185,419	-	(7,609)	177,810
Less: accumulated depreciation				
Furniture, fixtures and equipment	(171,961)	(5,266)	7,609	(169,618)
Total accumulated depreciation	(171,961)	(5,266)	7,609	(169,618)
Governmental activities capital assets, net	$ 13,458	$ (5,266)	$ -	$ 8,192

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 438
Special	851
Support services:	
Pupil	112
Instructional staff	1,049
Administration	679
Business	301
Pupil transportation	1,836
Total depreciation expense	$ 5,266

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2018, the following activity occurred in governmental activities long-term obligations. The long-term obligations at June 30, 2017 have been restated as described in Note 3.A.:

	(Restated) Balance 07/01/17	Additions	Reductions	Balance 06/30/18	Amounts due in one year
Governmental activities:					
Compensated absences payable	$ 428,954	$ 10,023	$ (83,990)	$ 354,987	$ 94,520
Net Pension Liability	25,607,318	-	(8,618,380)	16,988,938	-
Net OPEB Liability	5,510,889	-	(1,397,368)	4,113,521	-
Total liability	31,118,207	-	(10,015,748)	21,102,459	-
Total long-term obligations	$ 31,547,161	$ 10,023	$ (10,099,738)	$ 21,457,446	$ 94,520

Compensated Absences - Compensated absences will be paid from the fund from which the employee is paid, which for the Educational Service Center, is primarily the general fund.

Net Pension Liability - The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. See Note 10 for details.

Net OPEB Liability - The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. See Note 11 for details.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS'

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2018, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining 0.5 percent of the employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was $342,948 for fiscal year 2018. Of this amount, $13,088 is reported as intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers 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 website 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. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

The Educational Service Center's contractually required contribution to STRS was $749,470 for fiscal year 2018. Of this amount, $84,059 is reported as intergovernmental.

Net Pension Liability

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

	SERS	STRS	Total
Proportion of the net pension liability prior measurement date	0.08427030%	0.05807517%	
Proportion of the net pension liability current measurement date	0.07695260%	0.05216198%	
Change in proportionate share	-0.00731770%	-0.00591319%	
Proportionate share of the net pension liability	$ 4,597,748	$ 12,391,190	$ 16,988,938
Pension expense	$ (419,318)	$ (5,218,515)	$ (5,637,833)

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ 197,872	$ 478,492	$ 676,364
Changes of assumptions	237,752	2,710,090	2,947,842
Educational Service Center contributions subsequent to the measurement date	342,948	749,470	1,092,418
Total deferred outflows of resources	$ 778,572	$ 3,938,052	$ 4,716,624

	SERS	STRS	Total
Deferred inflows of resources			
Differences between expected and actual experience	$ -	$ 99,868	$ 99,868
Net difference between projected and actual earnings on pension plan investments	21,825	408,926	430,751
Difference between Educational Service Center contributions and proportionate share of contributions/change in proportionate share	455,106	1,487,710	1,942,816
Total deferred inflows of resources	$ 476,931	$ 1,996,504	$ 2,473,435

$1,092,418 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (64,365)	$ 123,655	$ 59,290
2020	152,911	762,742	915,653
2021	(22,669)	440,435	417,766
2022	(107,183)	(134,755)	(241,938)
Total	$ (41,307)	$ 1,192,078	$ 1,150,771

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or ad hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	$ 6,380,479	$ 4,597,748	$ 3,104,347

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS Ohio

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

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

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

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

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	$ 17,762,349	$ 12,391,190	$ 7,866,794

NOTE 11 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

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

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

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

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Educational Service Center's surcharge obligation was $40,232.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was $52,934 for fiscal year 2018. Of this amount, $40,717 is reported as intergovernmental payable.

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Plan Description - State Teachers Retirement System (STRS)

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

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

Net OPEB Liability

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

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.08437550%	0.05807517%	
Proportion of the net OPEB liability current measurement date	0.07744250%	0.05216198%	
Change in proportionate share	-0.00693300%	-0.00591319%	
Proportionate share of the net OPEB liability	$ 2,078,353	$ 2,035,168	$ 4,113,521
OPEB expense	$ 68,499	$ (666,200)	$ (597,701)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	$ -	$ 117,483	$ 117,483
Educational Service Center contributions subsequent to the measurement date	52,934	-	52,934
Total deferred outflows of resources	$ 52,934	$ 117,483	$ 170,417

	SERS	STRS	Total
Deferred inflows of resources			
Net difference between projected and actual earnings on pension plan investments	$ 5,489	$ 86,988	$ 92,477
Changes of assumptions	197,225	163,940	361,165
Difference between Educational Service Center contributions and proportionate share of contributions/change in proportionate share	153,229	271,062	424,291
Total deferred inflows of resources	$ 355,943	$ 521,990	$ 877,933

$53,934 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ (128,348)	$ (74,667)	$ (203,015)
2020	(128,348)	(74,667)	(203,015)
2021	(97,874)	(74,667)	(172,541)
2022	(1,372)	(74,667)	(76,039)
2023	(1)	(52,920)	(52,921)
Thereafter	-	(52,919)	(52,919)
Total	$ (355,943)	$ (404,507)	$ (760,450)

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - SERS

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

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

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

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

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.56 percent
Prior measurement date	2.92 percent
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.63 percent
Prior measurement date	2.98 percent
Medical trend assumption:	
Medicare	5.50 to 5.00 percent
Pre-Medicare	7.50 to 5.00 percent

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2015 five-year experience study, are summarized as follows:

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's proportionate share of the net OPEB liability	$ 2,509,876	$ 2,078,353	$ 1,736,477

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Educational Service Center proportionate share of the net OPEB liability	$ 1,686,428	$ 2,078,353	$ 2,597,073

Actuarial Assumptions - STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Cost-of-living adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended discount rate of return	4.13 percent
Health care cost trends	6 to 11 percent initial, 4.5 percent ultimate

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

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

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

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

NOTE 11 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Educational Service Center proportionate share of the net OPEB liability	$ 2,732,180	$ 2,035,168	$ 1,484,300

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center proportionate share of the net OPEB liability	$ 1,413,947	$ 2,035,168	$ 2,852,767

NOTE 12 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the Educational Service Center was insured under Love Insurance under the Ohio School Plan.

Professional liability was protected by Hylant Administrative Services, LLC with a $5,000,000 annual aggregate/$3,000,000 single occurrence limit and no deductible for each claim. Vehicles are covered by Nationwide Insurance Company and have a $100 deductible for comprehensive and $500 deductible for collision. The policy includes coverage for hired and nonowned automobiles. Automobile liability has a $1,000,000 combined single limit of liability. The Educational Service Center has an additional crime policy with a $250,000 limit through Travelers. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in coverage from prior years.

For fiscal year 2018, the Educational Service Center participated in the SchoolComp Group Retrospective Rating Program (Group Retro). The intent of the Group Retro is to reward participants that are able to keep their individual claim costs below a predetermined amount. The Educational Service Center continues to pay their individual premium; however, the Educational Service Center will have the opportunity to receive retrospective premium adjustments (refunds or assessments) at the end of the three evaluation periods. The group's retrospective premium will be calculated at 12, 24, and 36 months after the end of the policy year. At the end of each period, the Bureau of Workers Comp (BWC) will take a snap-shot of the incurred claims losses for the entire group and calculate the group's retrospective premium. If the retrospective premium that is calculated is less than the group's total standard premium, all the participants will receive a refund. However, if the retrospective premium is greater than the group's total standard premium, an assessment will be levied by the BWC. CompManagement, Inc. provides administrative, cost control and actuarial services to the Group Retro program.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION AND INSURANCE PURCHASING POOL

A. Jointly Governed Organization

The Lake-Geauga Education Computer Association ("Association") is a jointly governed organization consisting of 22 school districts in Lake, Geauga and Cuyahoga County. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The Association is organized under Chapter 167 and 3313 of the Ohio Revised Code and is governed by an assembly that consists of a superintendent or designated representative from each participating member. The Association has a Board of Directors chosen from the general membership of the Association's assembly. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. The degree of control exercised by any participating school district is limited to its voting rights at general assembly meetings. The Educational Service Center is the fiscal agent as well as a voting member of the Association. All the consortium revenues are generated from charges for services and State funding. To obtain financial information, write the Lake-Geauga Education Computer Association, 8221 Auburn Road, Painesville, Ohio, 44077.

NOTE 13 - JOINTLY GOVERNED ORGANIZATION AND INSURANCE PURCHASING POOL

B. Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Oho Revised Code. The Ohio School Boards Association (OSBA) Workers' Compensation Group Rating Program ("Plan") was established as an insurance purchasing pool.

The Plan's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect, and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 14 - EMPLOYEE BENEFITS

A. Compensated Absences

Certified and Classified employees (that are 12-month employees) earn ten to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation is paid upon termination of employment. Administrators, supervisors, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 280 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 70 days.

B. Life Insurance

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

NOTE 15 - CONTINGENCIES

A. Grants

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

B. Litigation

The Educational Service Center is not a part of or involved in any legal proceedings at this time. The Educational Service Center management is of the opinion that ultimate disposition of any future claims and legal proceedings will not have a material effect on the financial condition of the Educational Service Center.

NOTE 15 - CONTINGENCIES - (Continued)

C. School Foundation

Foundation funding is based on the annualized full-time (FTE) enrollment of each student. Traditional school students must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula ODE is legislatively required to follow will continue to adjust as enrollment information is updated by the school districts, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to June 30, 2018. Foundation funding for the Educational Service Center; therefore, the financial statement impact is not determinable at this time. ODE and management believe this will result in either a receivable to or liability of the Educational Service Center. A portion of the Educational Service Center's foundation receipts are determined by FTE of the member school districts.

REQUIRED SUPPLEMENTARY INFORMATION

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GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015
Educational Service Center's proportion of the net pension liability	0.07695260%	0.08427030%	0.85918200%	0.09261400%
Educational Service Center's proportionate share of the share of the net pension liability	$ 4,597,748	$ 6,167,808	$ 4,902,576	$ 4,687,142
Educational Service Center's covered payroll	$ 2,529,843	$ 2,580,693	$ 2,586,586	$ 2,691,169
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered payroll	181.74%	239.00%	189.54%	174.17%
Plan fiduciary net position as a percentage of the total pension liability	69.50%	62.98%	69.16%	71.70%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014
0.09261400%
$ 5,507,457
$ 2,251,091
244.66%
65.52%

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST FIVE FISCAL YEARS

	2018	2017	2016	2015
Educational Service Center's proportion net pension liability	0.05216198%	0.05807517%	0.05877854%	0.05884779%
Educational Service Center's proportionate share of the net pension liability	$ 12,391,190	$ 19,439,510	$ 16,244,669	$ 14,313,819
Educational Service Center's covered payroll	$ 5,628,957	$ 6,095,664	$ 6,222,307	$ 6,012,623
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered payroll	220.13%	318.91%	261.07%	238.06%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	66.80%	72.10%	74.70%

Note: Information prior to 2014 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014
0.05884779%
$ 17,050,528
$ 4,972,162
342.92%
69.30%

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER PENSION CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 342,948	$ 354,178	$ 361,297	$ 340,912
Contributions in relation to the contractually required contribution	(342,948)	(354,178)	(361,297)	(340,912)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Educational Service Center's covered payroll	$ 2,540,356	$ 2,529,843	$ 2,580,693	$ 2,586,586
Contributions as a percentage of covered payroll	13.50%	14.00%	14.00%	13.18%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014		2013		2012		2011		2010		2009	
$	372,996	$	311,551	$	321,622	$	307,405	$	204,976	$	144,744
	(372,996)		(311,551)		(321,622)		(307,405)		(204,976)		(144,744)
$	-	$	-	$	-	$	-	$	-	$	-
$	2,691,169	$	2,251,091	$	2,391,242	$	2,445,545	$	1,513,855	$	1,470,976
	13.86%		13.84%		13.45%		12.57%		13.54%		9.84%

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER PENSION CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 749,470	$ 788,054	$ 853,393	$ 871,123
Contributions in relation to the contractually required contribution	(749,470)	(788,054)	(853,393)	(871,123)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Educational Service Center's covered payroll	$ 5,353,357	$ 5,628,957	$ 6,095,664	$ 6,222,307
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

2014		2013		2012		2011		2010		2009	
$	781,641	$	646,381	$	714,209	$	747,058	$	691,338	$	644,891
	(781,641)		(646,381)		(714,209)		(747,058)		(691,338)		(644,891)
$	-	$	-	$	-	$	-	$	-	$	-
$	6,012,623	$	4,972,162	$	5,493,915	$	5,746,600	$	5,317,985	$	4,960,700
	13.00%		13.00%		13.00%		13.00%		13.00%		13.00%

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TWO FISCAL YEARS

	2018	2017
Educational Service Center's proportion net OPEB liability	0.07744250%	0.08437550%
Educational Service Center's proportionate share of the net OPEB liability	$ 2,078,353	$ 2,405,014
Educational Service Center's covered payroll	$ 2,529,843	$ 2,580,693
Educational Service Center's proportionate share of the net OPEB liability as a percentage of its covered payroll	82.15%	93.19%
Plan fiduciary net position as a percentage of the total OPEB liability	12.46%	11.49%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
THE NET OPEB LIABILITY
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TWO FISCAL YEARS

	2018	2017
Educational Service Center's proportion net OPEB liability	0.05216198%	0.05807517%
Educational Service Center's proportionate share of the net OPEB liability	$ 2,035,168	$ 3,105,875
Educational Service Center's covered payroll	$ 5,628,957	$ 6,095,664
Educational Service Center's proportionate share of the net OPEB liability as a percentage of its covered payroll	36.16%	50.95%
Plan fiduciary net position as a percentage of the total OPEB liability	47.10%	37.33%

Note: Information prior to 2017 was unavailable. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER OPEB CONTRIBUTIONS
SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ 52,934	$ 39,217	$ 38,304	$ 62,868
Contributions in relation to the contractually required contribution	(52,934)	(39,217)	(38,304)	(62,868)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Educational Service Center's covered payroll	$ 2,540,356	$ 2,529,843	$ 2,580,693	$ 2,586,586
Contributions as a percentage of covered payroll	2.08%	1.55%	1.48%	2.43%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

	2014	2013	2012	2011	2010	2009
	$ 44,835	$ 20,260	$ 31,086	$ 53,557	$ 18,523	$ 74,221
	(44,835)	(20,260)	(31,086)	(53,557)	(18,523)	(74,221)
	$ -	$ -	$ -	$ -	$ -	$ -
	$ 2,691,169	$ 2,251,091	$ 2,391,242	$ 2,445,545	$ 1,513,855	$ 1,470,976
	1.67%	0.90%	1.30%	2.19%	1.22%	5.05%

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER
GEAUGA COUNTY, OHIO

SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EDUCATIONAL SERVICE CENTER OPEB CONTRIBUTIONS
STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

LAST TEN FISCAL YEARS

	2018	2017	2016	2015
Contractually required contribution	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Educational Service Center's covered payroll	$ 5,353,357	$ 5,628,957	$ 6,095,664	$ 6,222,307
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

	2014		2013		2012		2011		2010		2009
$	60,078	$	53,361	$	54,939	$	53,361	$	53,180	$	-
	(60,078)		(53,361)		(54,939)		(53,361)		(53,180)		-
$	-	$	-	$	-	$	-	$	-	$	-
$	6,012,623	$	4,972,162	$	5,493,915	$	5,746,600	$	5,317,985	$	4,960,700
	1.00%		1.00%		1.00%		1.00%		1.00%		1.00%

PENSION

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the changed in the Consumer Price Index (CPI-W), with a cap of 2.5% and a floor of 0%.

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: (a) the assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) Rates of withdrawal, retirement and disability were updated to reflect recent experience, (e) 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, (f) 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, (g) 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 and (h) the discount rate was reduced from 7.75% to 7.50%. There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2018.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2014-2017. For fiscal year 2018, STRS decreased the Cost of Living Adjustment (COLA) to zero.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2017. For fiscal year 2018, the following changes of assumption affected the total pension liability since the prior measurement date: (a) the long term expected rate of return was reduced from 7.75% to 7.45%, (b) the inflation assumption was lowered from 2.75% to 2.50%, (c) the payroll growth assumption was lowered to 3.00%, (d) total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation (e) the healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016 and (f) rates of retirement, termination and disability were modified to better reflect anticipated future experience.

(Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal years 2017-2018.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2017. For fiscal year 2018, the following changes of assumptions affected the total OPEB liability since the prior measurement date: (a) assumed rate of inflation was reduced from 3.25% to 3.00%, (b) payroll growth assumption was reduced from 4.00% to 3.50%, (c) assumed real wage growth was reduced from 0.75% to 0.50%, (d) rates of withdrawal, retirement, and disability were updated to reflect recent experience, (e) mortality among active members was updated to the following: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females, (f) 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, (g) mortality among disabled members was updated to the following: 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.

STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms: There were no changes in benefit terms from the amounts reported for fiscal year 2017. For fiscal year 2018, STRS reduced the subsidy multiplier for non-Medicare benefit recipients from 2.1% to 1.9% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 2019.

Changes in assumptions: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal year 2017. For fiscal year 2018, the following changes of assumption affected the total OPEB liability since the prior measurement date: (a) the discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB), (b) the long term expected rate of return was reduced from 7.75% to 7.45%, (c) valuation year per capita health care costs were updated, and the salary scale was modified, (d) the percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased and (e) the assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

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

Geauga County Educational Service Center
Geauga County
470 Center Street, Building #2
Chardon, Ohio 44024

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Geauga County Educational Service Center, Geauga County, Ohio (the Center) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 5, 2019 wherein we noted the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and the Center's fiduciary fund Net Position was restated to account for a fund-type accounting revision.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

February 5, 2019

OHIO AUDITOR OF STATE
KEITH FABER

GEAUGA COUNTY EDUCATIONAL SERVICE CENTER

GEAUGA 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
MARCH 7, 2019