SUMMIT EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

OHIO AUDITOR OF STATE
KEITH FABER

SUMMIT EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY
JUNE 30, 2018

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OHIO AUDITOR OF STATE
KEITH FABER

INDEPENDENT AUDITOR'S REPORT

Summit Educational Service Center
Summit County
420 Washington Avenue
Cuyahoga Falls, Ohio 44221

To the Board of Governors:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedule of Receipts and Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2019, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State

Columbus, Ohio

May 10, 2019

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

Financial Highlights

Key financial highlights for 2018 are as follows:

- Net position increased $9,117,571, which represents a 35% increase from 2017 restated net position.
- During the fiscal year, outstanding capital leases decreased from $612,434 to $514,533 due to principal payments made by the Service Center.
- The Service Center implemented GASB 75, which reduced beginning net position as previously reported by $6,449,537.
- A decrease in net pension liability and net OPEB liability substantially decreased all instructional and support services expenses compared to fiscal year 2017. See further explanation after Table 1.

Using this Annual Report

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

The *Statement of Net Position and Statement of Activities* provide information about the activities of the whole Service Center, presenting both an aggregate view of the 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 Service Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Service Center, the general fund and the educational regional service system fund are the most significant funds.

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

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

These two statements report the Service Center's net position and changes in net position. This change in net position is important because it tells the reader that, for the Service Center as a whole, the financial position of the 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 mandated educational programs, as well as locally requested programs.

In the *Statement of Net Position* and the *Statement of Activities*, Governmental Activities include the Service Center's programs and services, including instruction, support services, extracurricular activities, and interest and fiscal charges.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The major funds financial statements begin on page 17. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions; however, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund and educational regional service system fund.

Governmental Funds

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

Reporting the Service Center's Fiduciary Responsibilities

The Service Center is the trustee, or fiduciary, for some of its scholarship and foundation programs. This activity is presented as a private purpose trust fund. The Service Center also acts in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These activities are reported in agency funds. The Service Center's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 21 and 22. These activities are excluded from the Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

The Service Center as a Whole

Recall that the Statement of Net Position provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net position for 2018 compared to 2017:

Table 1
Net Position

	Governmental Activities	
	2018	Restated 2017
Assets		
Current and Other Assets	$ 7,342,032	$ 7,769,153
Capital Assets	1,744,698	1,781,137
Total Assets	9,086,730	9,550,290
Deferred Outflows of Resources		
Pension & OPEB	6,305,156	5,910,248
Liabilities		
Other Liabilities	1,717,879	1,901,920
Long-Term Liabilities		
Due Within One Year	129,683	152,097
Due in More Than One Year		
Pension & OPEB	24,988,936	37,205,181
Other Amounts	517,764	608,421
Total Liabilities	27,354,262	39,867,619
Deferred Inflows of Resources		
Pension & OPEB	5,089,615	1,762,481
Net Position		
Net Investment in Capital Assets	1,230,165	1,168,703
Restricted	129,849	493,106
Unrestricted	(18,412,005)	(27,831,371)
Total Net Position	$ (17,051,991)	$ (26,169,562)

The net pension liability (NPL) is the largest single liability reported by the 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 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 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 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 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 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 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 a deficit of $19,720,025 to a deficit of $26,169,562.

At year end, capital assets represented 19 percent of total assets. Capital assets include, land, buildings and improvements, furniture and equipment and vehicles. The net investment in capital assets was $1,230,165 at June 30, 2018. These capital assets are used to provide services to students and are not available for future spending. Although the Service Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Service Center's net position, $129,849 represents resources that are subject to external restrictions on how they may be used. The balance of government-wide unrestricted net position is a deficit of $18,412,005, which is primarily caused by the implementation of GASB's 68 and 75.

The significant decrease in net pension liability is largely the result of a change in benefit terms in which STRS reduced their Cost-of-Living (COLA) to zero coupled by a slight reduction in COLA benefits by SERS. The significant increase in deferred outflows and inflows related to pension/OPEB are primarily from the change of assumptions and the difference in projected and actual investments earnings, respectively. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL and are described in more detail in their respective notes.

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In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2018 and 2017.

Table 2
Changes in Net Position

	Governmental Activities	
	2018	2017
Revenues		
Program Revenues:		
Charges for Services	$ 11,956,089	$ 10,365,383
Operating Grants	1,819,605	2,731,692
Total Program Revenues	13,775,694	13,097,075
General Revenues:		
Grants and Entitlements Not Restricted	1,093,652	1,061,593
Other	70,454	28,059
Total General Revenues	1,164,106	1,089,652
Total Revenues	14,939,800	14,186,727
Program Expenses		
Instruction:		
Regular	195,229	729,137
Special	1,845,420	4,378,934
Vocational	20,018	24,171
Support Services:		
Pupils	835,141	3,477,814
Instructional Staff	1,260,775	4,239,578
Board of Governors	22,523	54,958
Administration	784,846	1,346,314
Fiscal	275,635	406,292
Business	103,906	231,929
Operation and Maintenance of Plant	436,695	424,139
Central	2,858	99,793
Extracurricular Activities	15,094	48,396
Debt Service:		
Interest and Fiscal Charges	24,089	27,714
Total Expenses	5,822,229	15,489,169
Increase (Decrease) in Net Position	$ 9,117,571	$ (1,302,442)

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 $36,510 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report negative OPEB expense of $776,673. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 Program Expenses under GASB 75	$ 5,822,229
Negative OPEB Expense under GASB 75	776,673
2018 Contractually Required Contribution	49,229
Adjusted 2018 Program Expenses	6,648,131
Total 2017 Program Expenses under GASB 45	15,489,169
Decrease in Program Expenses not Related to OPEB	$ (8,841,038)

Fluctuations among individual program revenues and expenses are a result of a change in how certain consultant services are provided. See financial highlights for additional explanation of fluctuations in instruction and support services expenses.

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

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2018	2017	2018	2017
Instruction:				
Regular	$ 195,229	$ 729,137	$ (896,298)	$ (251,155)
Special	1,845,420	4,378,934	(2,927,827)	(161,715)
Vocational	20,018	24,171	(9,111)	(5,977)
Support Services:				
Pupils	835,141	3,477,814	(2,199,690)	473,284
Instructional Staff	1,260,775	4,239,578	(977,496)	890,039
Board of Governors	22,523	54,958	11,990	54,958
Administration	784,846	1,346,314	(1,586,034)	665,599
Fiscal	275,635	406,292	119,249	299,300
Business	103,906	231,929	101,605	231,929
Operation and Maintenance of Plant	436,695	424,139	402,262	188,360
Central	2,858	99,793	(4,328)	(8,585)
Extracurricular Activities	15,094	48,396	(11,876)	(11,657)
Debt Service:				
Interest and Fiscal Charges	24,089	27,714	24,089	27,714
Total Expenses	$ 5,822,229	$ 15,489,169	$ (7,953,465)	$ 2,392,094

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

The total and net cost of services changes were primarily caused by the change in COLA related to NPL as previously discussed.

Governmental Funds

Information about the Service Center's major funds starts on page 17. These funds are accounted for using the modified accrual basis of accounting.

The general fund's net change in fund balance for fiscal year 2018 was a decrease of $314,259, which was primarily caused by an increase in expenditures due to the fluctuation of services provided.

The educational regional service system fund's net change in fund balance for fiscal year 2018 was a decrease of $121,902. This was primarily caused by a decrease in grant receipts.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2018, the Service Center had $1,744,698 invested in capital assets. Table 4 shows fiscal year 2018 balances compared with 2017.

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

	Governmental Activities	
	2018	2017
Land	$ 207,778	$ 207,778
Furniture and Equipment	94,790	90,593
Buildings and Improvements	1,430,241	1,468,896
Vehicles	11,889	13,870
Totals	$ 1,744,698	$ 1,781,137

The $36,439 decrease in capital assets was attributable to depreciation exceeding current year additional purchases. See Note 5 for more information about the capital assets of the Service Center.

Debt

At year end, the Service Center had only capitalized leases as outstanding debt obligations. The lease obligations outstanding at year end totaled $514,533. The lease balance consisted of a lease-purchase agreements for an HVAC heating and cooling project and copiers. See Note 10 to the basic financial statements for detail on the Service Center's long-term obligation.

	Governmental Activities	
	2018	2017
Lease Obligations	$ 514,533	$ 612,434

Current Issues

House Bill 115 established the Educational Regional Service System (ERSS) in 2006. This system requires a coordinated, integrated and aligned system to support state and school district efforts to improve school effectiveness and student achievement. The system consists of sixteen regions. Each region has a fiscal agent. The selection of a fiscal agent was through a RFP (request for proposal) process. Fiscal Agents in each region have the responsibility of allocating resources to provide regional services and also assuring that the state-sponsored regional improvement initiatives are deployed according to Ohio Department of Education guidance. The Summit Educational Service Center is the Region 8 fiscal agent. The Summit Educational Service Center will work hard to ensure our districts are involved and benefit from Region 8 services.

While the Regional Service System has slightly changed the landscape of the Summit Educational Service Center, we are still creating new services that assist our community and school districts. The organization sponsored a community conversion school. This school was located in Springfield Township, Ohio and served children in grades kindergarten through fourth grade. Fiscal year 2010 was its first year of operation, fiscal year 2016 was the seventh. Due to requirements mandated by the Ohio Department of Education, the Summit Educational Service Center decided it was not beneficial to sponsor the community school. For this reason, we turned sponsorship over to the Ohio Department of Education. We also continue an Autism Family School. This School, which began in 2010, is to provide educational services for an autism center located in Copley Township. The school is named Kids First. This school opened in Fall of 2010 and is also currently in year seven of operation. Demand for Kids First by school districts, seeking to serve autistic students, has continued to grow. While the goal of the school is to return students to their home school, it became necessary to open a school that created continued support for students who were not ready to return to their home school. This school, which was located in the City of Tallmadge, has been combined with the Copley school for purposes of efficiency. Services for students now extend to middle and high school aged students with autism.

Yet another change in legislation allows school districts to choose the Educational Service Center they wish to align with. This change can be made every two years. Fiscal year 2014 brought the loss of three school districts to the Educational Service Center. The three districts who left were Green Local of Summit County, Revere Local and Twinsburg City School districts. Field Local from Portage County decided to join the Summit Educational Service Center. Current member districts need to inform their current ESC of their intention to make a change. The next opportunity for districts to choose a different Educational Service Center will be no later than December 31, 2019, which would be effective for the fiscal year beginning July 1, 2020. The district must inform the Ohio Department of Education which ESC they have chosen. This freedom to choose has only increased the organization's efforts to improve. We feel confident the Summit Educational Service Center will become better in the long run. All districts associated with Summit Educational Service Center have chosen to keep their association with us.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Educational Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Summit Educational Service Center Treasurer/CFO Office at 420 Washington Avenue, Suite 200, Cuyahoga Falls, Ohio 44221.

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

		Governmental Activities
Assets		
Equity in Pooled Cash and Investments	$	3,820,197
Receivables:		
Accounts		62,736
Intergovernmental		3,449,062
Prepaid Items		10,037
Nondepreciable Capital Assets		207,778
Depreciable Capital Assets (Net)		1,536,920
Total Assets		9,086,730
Deferred Outflows of Resources		
Pension		6,111,331
OPEB		193,825
Total Deferred Outflows of Resources		6,305,156
Liabilities		
Accounts Payable		28,492
Accrued Wages and Benefits		1,305,530
Intergovernmental Payable		241,210
Accrued Vacation Leave Payable		142,647
Long Term Liabilities:		
Due Within One Year		129,683
Due In More Than One Year		
Net Pension Liability		20,240,808
Net OPEB Liability		4,748,128
Other Amounts Due In More Than One Year		517,764
Total Liabilities		27,354,262
Deferred Inflows of Resources		
Pension		4,020,283
OPEB		1,069,332
Total Deferred Inflows of Resources		5,089,615
Net Position		
Net Investment in Capital Assets		1,230,165
Restricted For:		
Educational Regional Service System		118,833
Federally Funded Programs		1,721
State Grants		4,229
Local Grants		5,066
Unrestricted		(18,412,005)
Total Net Position	$	(17,051,991)

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants, and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction:				
Regular	$ 195,229	$ 1,083,554	$ 7,973	$ 896,298
Special	1,845,420	4,553,580	219,667	2,927,827
Vocational	20,018	29,129	0	9,111
Support Services:				
Pupils	835,141	2,924,240	110,591	2,199,690
Instructional Staff	1,260,775	991,582	1,246,689	977,496
Board of Governors	22,523	0	10,533	(11,990)
Administration	784,846	2,305,415	65,465	1,586,034
Fiscal	275,635	0	156,386	(119,249)
Business	103,906	0	2,301	(101,605)
Operation and Maintenance of Plant	436,695	34,433	0	(402,262)
Central	2,858	7,186	0	4,328
Extracurricular Activities	15,094	26,970	0	11,876
Debt Service:				
Interest and Fiscal Charges	24,089	0	0	(24,089)
Total	$ 5,822,229	$ 11,956,089	$ 1,819,605	7,953,465

General Revenues	
Grants and Entitlements Not Restricted to Specific Programs	1,093,652
Investment Earnings	358
Miscellaneous	70,096
Total General Revenues	1,164,106
Change in Net Position	9,117,571
Net Position Beginning of Year - Restated, See Note 2-O	(26,169,562)
Net Position End of Year	$ (17,051,991)

See accompanying notes to the basic financial statements.

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

	General	Educational Regional Service System	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Investments	$ 3,811,179	$ 0	$ 9,018	$ 3,820,197
Receivables:				
Accounts	62,736	0	0	62,736
Interfund	21,470	0	0	21,470
Intergovernmental	3,076,699	332,127	40,236	3,449,062
Prepaid Items	8,550	1,487	0	10,037
Total Assets	$ 6,980,634	$ 333,614	$ 49,254	$ 7,363,502
Liabilities				
Accounts Payable	$ 20,881	$ 5,393	$ 2,218	$ 28,492
Accrued Wages and Benefits	1,135,858	138,062	31,610	1,305,530
Intergovernmental Payable	212,494	23,831	4,885	241,210
Interfund Payable	0	21,165	305	21,470
Total Liabilities	1,369,233	188,451	39,018	1,596,702
Deferred Inflows of Resources				
Unavailable Revenue	2,810,241	280,820	24,467	3,115,528
Fund Balances				
Nonspendable	8,550	1,487	0	10,037
Restricted	0	0	6,787	6,787
Assigned	417,634	0	0	417,634
Unassigned	2,374,976	(137,144)	(21,018)	2,216,814
Total Fund Balances	2,801,160	(135,657)	(14,231)	2,651,272
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 6,980,634	$ 333,614	$ 49,254	$ 7,363,502

See accompanying notes to the basic financial statements.

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

Total Governmental Fund Balances		$ 2,651,272
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		1,744,698
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Grants	$ 305,287	
Excess Costs	2,797,165	
Charges for Services	13,076	3,115,528
The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds.		
Deferred Outflows - Pension	6,111,331	
Deferred Outflows - OPEB	193,825	
Net Pension Liability	(20,240,808)	
Net OPEB Liability	(4,748,128)	
Deferred Inflows - Pension	(4,020,283)	
Deferred Inflows - OPEB	(1,069,332)	(23,773,395)
Long-term liabilities, including capital lease obligations payable, are not due and payable in the current period and therefore are not reported in the funds.		
Capital Lease Obligation	(514,533)	
Vacations Payable	(142,647)	
Compensated Absences	(132,914)	(790,094)
Net Position of Governmental Activities		$ (17,051,991)

See accompanying notes to the basic financial statements.

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

	General	Educational Regional Service System	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	$ 1,093,652	$ 1,708,358	$ 318,783	$ 3,120,793
Investment Income	358	0	0	358
Tuition and Fees	4,928,399	0	0	4,928,399
Charges for Services	6,887,967	0	0	6,887,967
Miscellaneous	70,096	7,973	0	78,069
Total Revenues	12,980,472	1,716,331	318,783	15,015,586
Expenditures				
Current:				
Instruction:				
Regular	985,431	0	0	985,431
Special	4,474,523	0	205,697	4,680,220
Vocational	26,773	0	0	26,773
Support Services:				
Pupils	3,507,549	5,540	108,983	3,622,072
Instructional Staff	1,884,811	1,537,271	8,692	3,430,774
Board of Governors	22,523	0	0	22,523
Administration	1,350,366	13,928	0	1,364,294
Fiscal	346,570	81,296		427,866
Business	143,365	0	0	143,365
Operation and Maintenance of Plant	412,146	194,205	0	606,351
Central	0	2,858	0	2,858
Extracurricular Activities	21,819	0	0	21,819
Debt Service:				
Principal Retirement	95,167	2,734	0	97,901
Interest and Fiscal Charges	23,688	401	0	24,089
Total Expenditures	13,294,731	1,838,233	323,372	15,456,336
Net Change in Fund Balance	(314,259)	(121,902)	(4,589)	(440,750)
Fund Balance (Deficit) Beginning of Year	3,115,419	(13,755)	(9,642)	3,092,022
Fund Balance (Deficit) End of Year	$ 2,801,160	$ (135,657)	$ (14,231)	$ 2,651,272

See accompanying notes to the basic financial statements.

Summit Educational Service Center
Summit 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		$ (440,750)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Capital Asset Additions	$ 25,725	
Current Year Depreciation	(62,164)	(36,439)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Grants	(215,509)	
Tuition and Fees	(1,217)	
Excess Costs	432,833	
Charges for Services	(20,233)	195,874
Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		97,901
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	1,462,494	
OPEB	49,229	1,511,723
Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
Pension	6,995,623	
OPEB	776,673	7,772,296
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences	15,170	
Vacations Payable	1,796	16,966
Change in Net Position of Governmental Activities		$ 9,117,571

See accompanying notes to the basic financial statements.

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

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Investments	$ 106,459	$ 180,728
Intergovernmental Receivable	0	32,753
Total Assets	106,459	$ 213,481
Liabilities		
Undistributed Monies	0	$ 213,481
Net Position		
Held in Trust for Scholarships	$ 106,459	

See accompanying notes to the basic financial statements.

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

	Private Purpose Trust
Deductions	
Payments in Accordance with Trust Agreements	$ 153
Change in Net Position	(153)
Net Position Beginning of Year	$ 106,612
Net Position End of Year	$ 106,459

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE SERVICE CENTER

The Summit Educational Service Center (the "Service Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The Service Center is a County Educational Service Center as defined by Section 3313.01 of the Ohio Revised Code. The Service Center operates under an elected Board of Governors (5 members). Board members must be residents of the local school systems located in Summit County. The Service Center provides educational services to the local school systems in Summit County as well as nine city school districts, which have a contractual relationship with the Service Center.

Reporting Entity

The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the financial statements of the Service Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Service Center.

Component units are legally separate organizations for which the Service Center is financially accountable. The Service Center is financially accountable for an organization if the Service Center appoints a voting majority of the organizations' governing board and (1) the Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Service Center is legally entitled to or can otherwise access the organization's resources; the Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Service Center in that the Service Center approves the budget, the issuance of debt or the levying of taxes. The Service Center does not have any component units.

During the fiscal year the Service Center is associated with the Metropolitan Regional Service Council (MRSC) also known as Northeast Ohio Network for Educational Technology (NEOnet), which is defined as a jointly governed organization. Representatives from each of the governments that create the organization govern jointly, but there is no ongoing financial interest or responsibility by the participating governments. Information regarding this organization is presented in Note 12.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting entity for establishing governmental accounting and financial reporting principles.

The most significant of the Service Center's accounting policies are described below.

A. Basis of Presentation

The Service Center's basic financial statements consist of government-wide statements, including a statement of net position, and 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 Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The effect of interfund activity, within governmental type activities columns has been removed from these statements.

The statement of net position presents the financial condition of the governmental activities of the Service Center at fiscal year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the 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 operations of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Service Center, with certain limitations. 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 Service Center.

Fund Financial Statements

During the fiscal year, the Service Center segregates transactions related to certain 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 Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. The major funds are presented in separate columns. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

The 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 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 Service Center are grouped into the categories of governmental and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Service Center 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 deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the Service Center's major governmental funds:

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

Educational Regional Service System Special Revenue Fund This fund is used to account for grant revenues used to support state and regional education initiatives and efforts to improve school effectiveness and student achievement. The state system consists of sixteen regions. The Service Center is the fiscal agent for the State Support Team Region 8 which includes Portage, Medina and Summit Counties.

The other governmental funds of the Service Center account for grants and other resources to which the Service Center is bound to observe constraints imposed upon the use of the resources.

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Agency funds do not report a measurement focus as they do not report operations.

Private purpose trust funds are reported using the economic resources measurement focus and are excluded from the government-wide financial statements.

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, "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 Service Center, available means expected to be received within sixty days of year-end.

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

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

Deferred Inflows of Resources and Deferred Outflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 8 and 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Service Center, deferred inflows of resources include pension, OPEB and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Service Center, unavailable revenue may include intergovernmental grants and tuition and fees and charges for services revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 8 and 9).

E. Cash and Investments

To improve cash management, all cash received by the 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 Service Center records. Each fund's interest in the pool is presented as "equity in pooled cash and investments."

During fiscal year 2018, the Service Center had no investments. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value. Nonparticipating investment contracts such as repurchase agreements and nonnegotiable certificates of deposit are reported at cost. Under existing Ohio statutes, all investment earnings accrue to the general fund except those specifically related to certain trust funds, unless the Board specifically allows the interest to be recorded in other funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as "equity in pooled cash and investments." Investments with an initial maturity of more than three months that are not purchased from the pool are reported as "investments." The Service Center did not have any of these types of investments at year-end.

F. Capital Assets

All of the Service Center's capital assets are general capital assets. These assets generally result from expenditures in the governmental funds. These assets are reported in the 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 value as of the date received. The Service Center maintains a capitalization threshold of $1,000. The 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, except land are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Description	*Estimated Lives*
Building and improvements	*50 years*
Furniture and equipment	*3-20 years*
Vehicles	*3-5 years*

G. Compensated Absences

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

Sick leave benefits are accrued as a liability using the termination method, which was an immaterial change from 2017. The liability includes the employees who are currently eligible to receive termination benefits and those the Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Service Center's termination policy.

H. Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that once incurred are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences 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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

I. Pensions and Other Postemployment Benefits (OPEB)

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

J. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

K. Fund Balance

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

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed or assigned.

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Service Center Board of Governors. The Board of Governors has by resolution authorized the treasurer to assign fund balance.

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

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

L. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures 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 for governmental funds. All transfers between governmental funds have been eliminated within the governmental activities column of the statement of net position. Repayments from funds responsible for particular expenditures to the funds that initially paid for them are not presented in the financial statements.

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

M. 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.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in the nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Governors and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2018.

O. Implementation of New Accounting Principles and Restatement of Net Position

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

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

Net Position, June 30, 2017	$	(19,720,025)
Adjustments:		
Net OPEB Liability		(6,486,047)
Deferred Outflow-Payments Subsequent to Measurement Date		36,510
Restated Net Position, July 1, 2017	$	(26,169,562)

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

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

GASB Statement No. 86 addresses the reporting and disclosure requirements of certain debt extinguishments including in-substance defeasance transactions and prepaid insurance associated with debt that is extinguished. The implementation of GASB Statement No. 86 did not have an effect on the financial statements of the Service Center.

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

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

Interim monies may be invested in the following obligations provided they mature or are redeemable within five years from the date of settlement:

1. United States Treasury Bills, Notes, Bonds, or any 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 other obligations or securities issued by any federal government agency or instrumentality;
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% and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in item (1) or (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 and 270 days, respectively, from the purchase date, in an amount not to exceed 40% of the interim monies available for investment at any one time; and

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

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

***Deposits* -** At year-end, the carrying amount of the City's deposits was $4,107,384 and the bank balance was $4,384,705. Of the bank balance, $250,000 was covered by Federal depository insurance and $4,134,705 was exposed to custodial credit risk as described below.

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the City will not be able to recover deposits or collateral securities that are in possession of an outside party. The City has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by:

- Eligible securities pledged to the City and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 percent of the deposits being secured; or
- Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS required the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

Interest Rate Risk The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. It is the Service Center's policy to evaluate market conditions, interest rate forecasts, and cash flow requirements to consider the term of an investment, with the goal being to buy where relative value exists along the maturity spectrum.

Concentration of Credit Risk The Service Center investment policy is to be diversified in it's holdings of investments by avoiding concentrations of specific users.

Interest is legally required to be placed in the general fund. Interest revenue credited to the general fund during fiscal year 2018 amounted to $358, which includes $24 assigned from other Service Center funds.

NOTE 4 – RECEIVABLES

Receivables at year-end consisted of intergovernmental (grants and entitlements and charges for services provided to other governments), accounts and interfund. All receivables are considered collectible in full due to the stable condition of state programs, and the current year guarantee of federal funds.

NOTE 5 - CAPITAL ASSETS

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

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$ 207,778	$ 0	$ 0	$ 207,778
Capital Assets, Being Depreciated				
Furniture and equipment	676,794	25,725	0	702,519
Building and improvements	1,854,192	0	0	1,854,192
Vehicles	19,813	0	0	19,813
Total Capital Assets, Being Depreciated	2,550,799	25,725	0	2,576,524
Accumulated Depreciation				
Furniture and equipment	(586,201)	(21,528)	0	(607,729)
Building and improvements	(385,296)	(38,655)	0	(423,951)
Vehicles	(5,943)	(1,981)	0	(7,924)
Total Accumulated Depreciated	(977,440)	(62,164)	0	(1,039,604)
Total Capital Assets Being Depreciated, Net	1,573,359	(36,439)	0	1,536,920
Governmental Activities, Capital Assets, Net	$ 1,781,137	$ (36,439)	$ 0	$ 1,744,698

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$ 12,893
Support Services:	
Pupils	500
Instructional Staff	4,352
Administration	18,296
Fiscal	200
Business	1,981
Operation and Maintenance of Plant	23,942
Total Depreciation	$ 62,164

NOTE 6 - INTERFUND TRANSACTIONS

Interfund balances consisted of the following at June 30, 2018, as reported on the fund financial statements:

	Interfund Receivable	Interfund Payable
General fund	$ 21,470	$ 0
Educational Regional Service System	0	21,165
Other governmental funds	0	305
Total	$ 21,470	$ 21,470

As of June 30, 2018, the educational regional service system and other non-major governmental funds reported unencumbered negative cash balances. The amount reported in other governmental funds was made up of $122 in the public school preschool grant fund and $183 in the EHA preschool grant fund. As a result, interfund loans were made by the general fund to eliminate the negative balances. The general fund advanced $21,165 to the Educational Regional Service System fund to temporarily cover operations. All interfund loans will be repaid in fiscal year 2019 with monies to be received from reimbursable expenditures incurred during fiscal year 2018.

NOTE 7 - RISK MANAGEMENT

A. Property and Liability

The 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.

These risks are covered by commercial insurance purchased from independent third parties. There have been no settlements paid in excess of insurance coverage nor has insurance coverage been significantly reduced.

B. Workers' Compensation

The Service Center participates in the Ohio School Comp Worker's Compensation Group Retrospective Rating Program (GRRP), an insurance pool. This represents a merger of individual pooling programs for the Ohio School Boards Association (OSBA) and the Ohio Association of School Business Officials (OASBO). Each year, the participating governments pay an enrollment fee to the GRRP to cover the costs of administering the program.
The intent of the GRRP, is to achieve the benefit of a reduced premium for the Service Center by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating governments is calculated as one experience and a common premium rate is applied to all governments in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP, rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRRP. Participation in the GRRP is limited to governments that can meet the GRRP's selection criteria. The firm of Comp management, Inc. provides administrative, cost control, and actuarial services to the GRRP.

C. Ohio School Plan

The Service Center participates in the Ohio School Plan (the "Plan"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing programs for maintaining adequate insurance protection and provides risk management programs and other administrative services. The Plan's business affairs are conducted by a fifteen-member board consisting of superintendents, treasurers, the president of Harcum-Schuett Insurance Agency, Inc., and a member of Hylant Group, Inc. Hylant Group, Inc. is the Plan's administrator and is responsible for processing claims. Harcum-Schuett Insurance Agency serves as the sales and marketing representative which establishes agreements between the Plan and its members. Financial information can be obtained from Harcum-Schuett Insurance Agency, 246 East Sycamore Street, Columbus, Ohio 43206.

D. Employee Medical Benefits

The Service Center is a member of the Stark County Schools Council of Government (the "Council"), through which a cooperative Health Benefit Program was created for the benefit of its members. The Health Benefit Program (the "Program") is an employee health benefit plan which covers the participating members' employees. This Council acts as a fiscal agent for the cash funds paid into the program by the participating governments. These funds are pooled together for the purpose of paying health benefit claims for employees and their covered dependents, administrative expenses of the program, and premiums for stop-loss insurance coverage. The Service Center accounts for the premiums paid as expenditures in the general or applicable fund.

NOTE 8 - 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 Service Center's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017*	Eligible to Retire 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: or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

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

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

The Service Center's contractually required contribution to SERS was $343,404 for fiscal year 2018. Of this amount, $32,230 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation was 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. Members are eligible to retire at age 60 with five years of qualifying service credit, or at age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2018, plan members were required to contribute 14 percent of their annual covered salary. The 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 Service Center's contractually required contribution to STRS was $1,119,090 for fiscal year 2018. Of this amount, $126,962 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.08351700%	0.06420002%	
Prior Measurement Date	0.09317370%	0.07139984%	
Change in Proportionate Share	-0.00965670%	-0.00719982%	
Proportionate Share of the Net Pension Liability	$ 4,989,956	$ 15,250,852	$ 20,240,808
Pension Expense	$ (336,391)	$ (6,659,232)	$ (6,995,623)

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

At June 30, 2018 the 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	$ 214,752	$ 588,913	$ 803,665
Changes of Assumptions	258,034	3,335,529	3,593,563
Changes in Proportion and Differences between Service Center Contributions and Proportionate Share of Contributions	251,609	0	251,609
Service Center Contributions Subsequent to the Measurement Date	343,404	1,119,090	1,462,494
Total Deferred Outflows of Resources	$ 1,067,799	$ 5,043,532	$ 6,111,331
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 122,916	$ 122,916
Net Difference between Projected and Actual Earnings on Pension Plan Investments	23,688	503,297	526,985
Changes in Proportion and Differences between Service Center Contributions and Proportionate Share of Contributions	812,490	2,557,892	3,370,382
Total Deferred Inflows of Resources	$ 836,178	$ 3,184,105	$ 4,020,283

$1,462,494 reported as deferred outflows of resources related to pension resulting from Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$ 43,038	$ (84,190)	$ (41,152)
2020	11,452	600,470	611,922
2021	(49,946)	384,244	334,298
2022	(116,327)	(160,187)	(276,514)
	$ (111,783)	$ 740,337	$ 628,554

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

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

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

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

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

Sensitivity of the 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 Service Center's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Service Center's Proportionate Share of the Net Pension Liability	$ 6,924,763	$ 4,989,956	$ 3,369,161

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

Inflation	2.50 percent
Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments	0.00 percent effective July 1, 2017

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

2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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

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

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

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

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

Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Service Center's proportionate share of the net pension liability as of June 30, 2017, calculated using the current period discount rate assumption of 7.45 percent, as well as what the Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Service Center's Proportionate Share of the Net Pension Liability	$ 21,861,578	$ 15,250,852	$ 9,682,307

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

Benefit Term Changes since the Prior Measurement Date
Effective July 1, 2017, the COLA was reduced to zero.

NOTE 9 – 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 Service Center's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

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

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

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

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The 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 Service Center's surcharge obligation was $36,510.

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 Service Center's contractually required contribution to SERS was $49,229 for fiscal year 2018. Of this amount $37,661 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

	SERS	STRS	Total
Proportion of the Net OPEB Liability			
Current Measurement Date	0.08358790%	0.06420002%	
Prior Measurement Date	0.09358661%	0.07139984%	
Change in Proportionate Share	-0.00999871%	-0.00719982%	
Proportionate Share of the Net OPEB Liability	$ 2,243,280	$ 2,504,848	$ 4,748,128
OPEB Expense	$ 42,679	$ (819,352)	$ (776,673)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	$ 0	$ 144,596	$ 144,596
Service Center Contributions Subsequent to the Measurement Date	49,229	0	49,229
Total Deferred Outflows of Resources	$ 49,229	$ 144,596	$ 193,825
Deferred Inflows of Resources			
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	$ 5,924	$ 107,063	$ 112,987
Changes of Assumptions	212,876	201,774	414,650
Changes in Proportionate Share and Differences between Service Center Contributions and Proportionate Share of Contributions	211,654	330,041	541,695
Total Deferred Inflows of Resources	$ 430,454	$ 638,878	$ 1,069,332

$49,229 reported as deferred outflows of resources related to OPEB resulting from 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	$ (155,296)	$ (91,303)	$ (246,599)
2020	(155,296)	(91,303)	(246,599)
2021	(118,381)	(91,303)	(209,684)
2022	(1,481)	(91,302)	(92,783)
2023	0	(64,537)	(64,537)
Thereafter	0	(64,534)	(64,534)
	$ (430,454)	$ (494,282)	$ (924,736)

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	2.92 percent
Single Equivalent Interest Rate	
Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Prior Measurement Date	2.98 percent, net of plan investment expense, including price inflation
Medical Trend Assumption	
Medicare	5.50 percent - 5.00 percent
Pre-Medicare	7.50 percent - 5.00 percent

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

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

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

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

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

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

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Service Center's Proportionate Share of the Net OPEB Liability	$ 2,709,046	$ 2,243,280	$ 1,874,274
	1% Decrease	**Current Trend Rate**	**1% Increase**
Service Center's Proportionate Share of the Net OPEB Liability	$ 1,820,253	$ 2,243,280	$ 2,803,162

Actuarial Assumptions – STRS

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

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Cost-of-Living Adjustments (COLA)	0.00 percent effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6.00 percent to 11.00 percent, initial, 4.50 percent ultimate

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

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

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

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

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

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

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

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

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

Sensitivity of the 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%)
Service Center's Proportionate Share of the Net OPEB Liability	$ 3,362,718	$ 2,504,848	$ 1,826,850

	1% Decrease	Current Trend Rate	1% Increase
Service Center's Proportionate Share of the Net OPEB Liability	$ 1,740,261	$ 2,504,848	$ 3,511,134

NOTE 10 - LONG TERM OBLIGATIONS

Changes in long-term obligations of the Service Center during the current fiscal year were as follows:

	Restated Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018	Amount Due Within One Year
Governmental Activities:					
Net Pension/OPEB Liability:					
Pension	$ 30,719,134	$ 0	$(10,478,326)	$ 20,240,808	$ 0
OPEB	6,486,047		(1,737,919)	4,748,128	0
Total Net Pension/OPEB Liability	37,205,181	0	(12,216,245)	24,988,936	0
Other Long-Term Obligations:					
Compensated Absences	148,084	360,445	(375,615)	132,914	27,811
Capital Lease	612,434	0	(97,901)	514,533	101,872
Total Other Long-Term Obligations	760,518	360,445	(473,516)	647,447	129,683
Total Long Term Obligations	$ 37,965,699	$ 360,445	$(12,689,761)	$ 25,636,383	$ 129,683

Compensated absences will be paid from the fund in which the employee is paid. In prior years, this fund has primarily been the general fund. Capital leases will be paid from the general fund and the Educational Regional Service System fund.

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are primarily made from the General Fund. For additional information related to the net pension liability and net OPEB liability see Notes 8 and 9.

NOTE 11 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In fiscal years 2008 and 2017, the Service Center entered into lease-purchase agreements for HVAC improvements for heating and cooling and five copiers, respectively. These leases meet the criteria of a capital lease as it transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service in the basic financial statements for the governmental funds. Capital assets acquired by lease have been capitalized in the amount of $1,274,300; this amount is equal to the present value of the future minimum lease payments at the time of acquisition in the government-wide financial statements. Accumulated depreciation was $274,917 as of June 30, 2018, leaving a current book value of $999,383.

Principal payments in the current fiscal year totaled $97,901. The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2018:

Year	Amount
2019	$ 121,990
2020	121,990
2021	110,937
2022	109,932
2023	109,931
Total lease payments	574,780
Less amount representing interest	(60,247)
Present value of minimum lease payments	$ 514,533

NOTE 12 - JOINTLY GOVERNED ORGANIZATION

Metropolitan Regional Service Council (MRSC)

MRSC is also known as Northeast Ohio Network for Educational Technology (NEOnet), which is the name used exclusively prior to their reorganization from a consortium to a council of governments. The 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 for members. All districts in MRSC are required to pay fees, charges, and assessments as charged. The MRSC assembly consists of a superintendent or designated representative from each participating member and a representative from the fiscal agent. MRSC is governed by a board of directors, chosen from the general membership of the MRSC assembly. The board of directors consists of a representative from the fiscal agent, the chairman of each operating committee, and at least one assembly member from each county from which participating members are located. Financial information can be obtained by contacting Northeast Ohio Network for Educational Technology, located at 700 Graham Road, Cuyahoga Falls, Ohio 44221. During the current fiscal year, the Service Center paid $84,226 to MRSC for fees.

NOTE 13 – CONTINGENCIES

A. Grants

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

B. Litigation

The Service Center is a party to legal proceedings. Although management cannot presently determine the outcome of these suits, they believe the resolution of these matters will not materially adversely affect the Service Center's financial statements.

NOTE 14 – FUND BALANCE

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

	General	Educational Regional Service System	Other Governmental Funds	Total
Nonspendable for:				
Prepaids	$ 8,550	$ 1,487	$ 0	$ 10,037
Restricted for:				
Local Grants	0	0	5,066	5,066
Federal Grants	0	0	1,721	1,721
Total Restricted	0	0	6,787	6,787
Assigned for:				
Encumbrances:				
Instructional	15,024	0	0	15,024
Support Services	394,371	0	0	394,371
Extracurricular	226	0	0	226
Other Purposes:				
Public School Support	8,013	0	0	8,013
Total Assigned	417,634	0	0	417,634
Unassigned (Deficit)	2,374,976	(137,144)	(21,018)	2,216,814
Total Fund Balance	$ 2,801,160	$ (135,657)	$ (14,231)	$ 2,651,272

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

	Fund Balance
Public School Preschool	$ 10,183
Miscellaneous State Grants	1,032
IDEA Preschool	9,803
Educational Regional Service System	137,144

The deficits in these funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in the non-major governmental funds and will provide transfers when cash is required, not when accruals occur.

NOTE 15 – ENCUMBRANCE COMMITMENTS

The Service Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end may be reported as part of restricted, committed or assigned classifications of fund balance. At fiscal year-end, the Service Center commitments for encumbrances in the general fund, Educational Regional Service System fund and other governmental funds were $409,641, $155,336 and $62, respectively.

NOTE 16 – STATE AND LOCAL FUNDING

A. State Funding

The Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Service Center's local school districts based on each school's total student count.

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Service Center. The Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Service Center also receives funding from the State Department of Education in the amount of $26.00 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Service Center's local and client school districts an amount equal to $6.50 times the school district's total student count and remits this amount to the Service Center.

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

B. Local Funding

Approximately 6 percent of the funding for Service Center's comes from the member districts they serve through deductions or transfers that the Ohio Department of Education (ODE) makes out of state foundation to the Service Centers. A number of calculations comprise this deduction.

Special education extended service – Since the State stopped paying for extended service, special education extended service has become a local responsibility. It is paid based on total costs of the program allocated on a per pupil basis.

$6.50 per pupil deduction – The ODE annually deducts from each local and client school district of each Service Center, pursuant to Division (E) of Section 3317.023 of the Ohio Revised Code, and pays to the Service Center an amount equal to $6.50 times the school district's total student count. The Board of Education of any local or client school may agree to pay an amount in excess of $6.50 per student in total student count. The Board of Education of any local or client school must notify ODE with a signed resolution of agreement of any per pupil amounts in excess of $6.50 so proper deductions can be made.

Service contracts – Districts may set up service contracts with Service Centers to pay for services above and beyond those covered by the above described funding sources. To receive payment pursuant to such contracts, or agreements, a Service Center must furnish to the State a copy of the contract or written statement that clearly indicates the payments owed and is signed by the superintendent or treasurer of the responsible school district. These deductions are included in the Service Center deduction of the foundation payment form. Instead of having contract amounts deducted by the State, Service Centers may bill the districts directly. Service Centers can also enter into agreements under Section 3313.844 of the Ohio Revised Code to provide services to community schools.

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

	2018	2017	2016	2015	2014
School Employees Retirement System (SERS)					
Service Center's Proportion of the Net Pension Liability	0.08351700%	0.09317370%	0.10762350%	0.09187500%	0.09187500%
Service Center's Proportionate Share of the Net Pension Liability	$ 4,989,956	$ 6,819,455	$ 6,141,101	$ 4,649,741	$ 5,463,511
Service Center's Covered Payroll	$ 2,602,914	$ 3,289,957	$ 3,606,548	$ 3,131,494	$ 3,476,590
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	191.71%	207.28%	170.28%	148.48%	157.15%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%	71.70%	65.52%
State Teachers Retirement System (STRS)					
Service Center's Proportion of the Net Pension Liability	0.06420002%	0.07139984%	0.07429441%	0.07745062%	0.07745062%
Service Center's Proportionate Share of the Net Pension Liability	$ 15,250,852	$ 23,899,679	$ 20,532,802	$ 18,838,671	$ 22,440,502
Service Center's Covered Payroll	$ 6,966,879	$ 7,537,886	$ 7,722,300	$ 8,035,138	$ 8,790,177
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	218.91%	317.06%	265.89%	234.45%	255.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution	$ 343,404	$ 364,408	$ 460,594	$ 475,343
Contributions in Relation to the Contractually Required Contribution	(343,404)	(364,408)	(460,594)	(475,343)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Service Center's Covered Payroll	$ 2,543,733	$ 2,602,914	$ 3,289,957	$ 3,606,548
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 1,119,090	$ 975,363	$ 1,055,304	$ 1,081,122
Contributions in Relation to the Contractually Required Contribution	(1,119,090)	(975,363)	(1,055,304)	(1,081,122)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Service Center's Covered Payroll	$ 7,993,500	$ 6,966,879	$ 7,537,886	$ 7,722,300
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

2014	2013	2012	2011	2010	2009
$ 434,025	$ 481,160	$ 403,426	$ 339,732	$ 663,952	$ 469,137
(434,025)	(481,160)	(403,426)	(339,732)	(663,952)	(469,137)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 3,131,494	$ 3,476,590	$ 2,999,450	$ 2,702,721	$ 4,903,634	$ 4,767,653
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
$ 1,044,568	$ 1,142,723	$ 1,051,143	$ 907,188	$ 859,095	$ 826,826
(1,044,568)	(1,142,723)	(1,051,143)	(907,188)	(859,095)	(826,826)
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 8,035,138	$ 8,790,177	$ 8,085,715	$ 6,978,369	$ 6,608,423	$ 6,360,200
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

	2018	2017
School Employees Retirement System (SERS)		
Service Center's Proportion of the Net OPEB Liability	0.08358790%	0.09358661%
Service Center's Proportionate Share of the Net OPEB Liability	$ 2,243,280	$ 2,667,565
Service Center's Covered Payroll	$ 2,602,914	$ 3,289,957
Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	86.18%	81.08%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%
State Teachers Retirement System (STRS)		
Service Center's Proportion of the Net OPEB Liability	0.06420002%	0.07139984%
Service Center's Proportionate Share of the Net OPEB Liability	$ 2,504,848	$ 3,818,482
Service Center's Covered Payroll	$ 6,966,879	$ 7,537,886
Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	35.95%	50.66%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

	2018	2017	2016	2015
School Employees Retirement System (SERS)				
Contractually Required Contribution (1)	$ 49,229	$ 36,510	$ 43,774	$ 83,723
Contributions in Relation to the Contractually Required Contribution	(49,229)	(36,510)	(43,774)	(83,723)
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Service Center's Covered Payroll	$ 2,543,733	$ 2,602,914	$ 3,289,957	$ 3,606,548
OPEB Contributions as a Percentage of Covered Payroll (1)	1.94%	1.40%	1.33%	2.32%
State Teachers Retirement System (STRS)				
Contractually Required Contribution	$ 0	$ 0	$ 0	$ 0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$ 0	$ 0	$ 0	$ 0
Service Center's Covered Payroll	$ 7,993,500	$ 6,966,879	$ 7,537,886	$ 7,722,300
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

2014		2013		2012		2011		2010		2009	
$	48,225	$	42,347	$	16,559	$	74,449	$	58,357	$	233,973
	(48,225)		(42,347)		(16,559)		(74,449)		(58,357)		(233,973)
$	0	$	0	$	0	$	0	$	0	$	0
$	3,131,494	$	3,476,590	$	2,999,450	$	2,702,721	$	4,903,634	$	8,402,703
	1.54%		1.22%		0.55%		2.75%		1.19%		2.78%
$	80,351	$	87,902	$	80,857	$	69,784	$	66,084	$	63,602
	(80,351)		(87,902)		(80,857)		(69,784)		(66,084)		(63,602)
$	0	$	0	$	0	$	0	$	0	$	0
$	8,035,138	$	8,790,177	$	8,085,715	$	6,978,369	$	6,608,423	$	6,360,200
	1.00%		1.00%		1.00%		1.00%		1.00%		1.00%

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

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

- Assumed rate of inflation was reduced from 3.25 percent to 3.00 percent
- Payroll Growth Assumption was reduced from 4.00 percent to 3.50 percent
- Assumed real wage growth was reduced from 0.75 percent to 0.50 percent
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
    - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
    - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates.
- Mortality among disable members was updated to the following:
    - RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement.

Changes in Benefit Terms - SERS

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

Changes in Assumptions – STRS

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

Changes in Benefit Terms - STRS

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

Note 2 - Net OPEB Liability

Changes in Assumptions – SERS

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

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

Changes in Assumptions – STRS

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

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

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SUMMIT COUNTY EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY

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

FEDERAL GRANTOR ***Pass Through Grantor*** Program / Cluster Title	Federal CFDA Number	Grant Year	Receipts	Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through Ohio Department of Education				
Special Education Cluster:				
Special Education Grants to States - Early Literacy SSIP	84.027	2018	$ 45,367	$ 49,251
Special Education Grants to States	84.027	2018	1,226,146	1,264,368
Special Education Grants to States	84.027	2017	328,410	203,194
Total Special Education Cluster - Grants to States			1,599,923	1,516,813
Special Education Preschool Grants - ELD Grant	84.173	2018	83,734	84,417
Special Education Preschool Grants - ELD Grant	84.173	2017	15,301	11,401
Special Education Preschool Grants - Early Literacy SSIP (ELSR)	84.173	2018	18,512	13,140
Special Education Preschool Grants - Pre K SE	84.173	2018	80,919	81,103
Special Education Preschool Grants - Pre K SE	84.173	2017	25,577	16,018
Total Special Education Cluster - Preschool Grants			224,043	206,079
Total Special Education Cluster			1,823,966	1,722,892
Title I Grants to Local Education Agencies	84.010	2018	21,518	21,899
Title I Grants to Local Education Agencies - Value Added	84.010A	2018	0	1,000
Total Title I Grants to Local Education Agencies			21,518	22,899
ARRA-Race to the Top-Early Learning Challenge	84.412	2015	0	1,192
Total ARRA-Race to the Top-Early Learning Challenge			0	1,192
Total U.S. Department of Education			1,845,484	1,746,983
Total Federal Financial Assistance			$1,845,484	$1,746,983

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED June 30, 2018

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Summit Educational Service Center (the Service Center) under programs of the federal government for the year ended June 30, 2018. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Service Center, it is not intended to and does not present the financial position or changes in net position of the Service Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The Service Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - TRANSFERS BETWEEN PROGRAM YEARS

Federal regulations require schools to obligate certain federal awards by June 30. However, with ODE's consent, schools can transfer unobligated amounts to the subsequent fiscal year's program. The Service Center transferred the following amounts from 2018 to 2019 programs:

Program Title	CFDA Number	Amt. Transferred	
Special Education - Grants to States	84.027	$	256,968
Special Education Preschool Grants - ELD	84.173	$	2,138

OHIO AUDITOR OF STATE
KEITH FABER

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

Summit Educational Service Center
Summit County
420 Washington Avenue Suite 200
Cuyahoga Falls, OH 44221

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Summit Educational Service Center, Summit County, (the Service Center) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated May 10, 2019, wherein we noted the Service Center adopted new accounting guidance in Governmental Accounting Standard Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Service 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 Service Center's internal control. Accordingly, we have not opined on it.

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the 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 Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Keith Faber
Auditor of State

Columbus, Ohio

May 10, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Summit Educational Service Center
Summit County
420 Washington Avenue Suite 200
Cuyahoga Falls, OH 44221

To the Board of Governors:

Report on Compliance for the Major Federal Program

We have audited the Summit Educational Service Center's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Service Center's major federal program for the year ended June 30, 2018. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Service Center's major federal program.

Management's Responsibility

The Service Center's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to opine on the Service Center's compliance for the Service Center's major federal program based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). These standards and the Uniform Guidance require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

The Service Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Service Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on the major federal program's compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Service Center's internal control over compliance.

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

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

This report only describes the scope of our internal control over compliance tests and the results of this testing based on Uniform Guidance requirements. Accordingly, this report is not suitable for any other purpose.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

May 10, 2019

SUMMIT EDUCATIONAL SERVICE CENTER
SUMMIT COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2018

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material weaknesses in internal control reported for major federal programs?**	No
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Unmodified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR § 200.516(a)?**	No
(d)(1)(vii)	**Major Program:**	Special Education Grants to States Cluster - CFDA #84.027 and #84.173
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee under 2 CFR § 200.520?**	NO

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

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SUMMIT
Educational Service Center

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
2 CFR 200.511(b)
June 30, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	The Governmental Funds Balance Sheet Intergovernmental Receivables and Unavailable Revenue were overstated by $601,184 within the General Fund opinion unit. The Statement of Fiduciary Net Position Intergovernmental Receivables and Undistributed Monies were overstated by $65,408 within the Agency Fund	Corrective Action Taken and Finding is Fully Corrected	
2017-002	The Service Center's annual financial statements erroneously reported the Miscellaneous State Grant Fund activity as Other Governmental Funds (OGF) opinion unit instead of the Educational Regional Service System Fund (ERSSF) opinion unit.	Corrective Action Taken and Finding is Fully Corrected	
2017-003	2 CFR § 200.309 The Service Center improperly requested money from the 2016 Special Education (a.k.a. IDEA B) Grant budget for payroll expenditures related to the 2017 IDEA B Grant budget in the amount of $8,857. This projects to a question cost in excess of $25,000.	Corrective Action Taken and Finding is Fully Corrected	

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OHIO AUDITOR OF STATE
KEITH FABER

SUMMIT COUNTY EDUCATIONAL SERVICE CENTER

SUMMIT COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MAY 23, 2019