TRUMBULL COUNTY
EDUCATIONAL SERVICE CENTER

TRUMBULL COUNTY, OHIO

Audit Report

For the Year Ended June 30, 2018

CEH
Charles E. Harris
& Associates, Inc.
CPAs and Government Consultants

Governing Board
Trumbull County Educational Service Center
6000 Youngstown Warren Road
Niles, Ohio 44446

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

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

Dave Yost
Auditor of State

December 21, 2018

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INDEPENDENT AUDITOR’S REPORT

Trumbull County Educational Service Center
Trumbull County
6000 Youngstown Warren Road
Niles, Ohio 44446

To the Governing Board:

Report on the Financial Statements

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

Management’s Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 18 to the financial statements, during the year ended June 30, 2018, the ESC adopted new 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 that the management's discussion and analysis, schedules of net pension liabilities, net postemployment liabilities and pension and other postemployment contributions listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trumbull County Educational Service Center, Trumbull County, Ohio's, basic financial statements. The budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2018, on our consideration of the ESC’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the ESC’s internal control over financial reporting and compliance.

Charles E. Harris & Associates, Inc.
November 5, 2018

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

Financial Highlights

Key financial highlights for 2018 include:

- In fiscal year 2018, total assets increased which can be attributed to an increase in capital assets. The Educational Service Center purchased new computer equipment.

- The Educational Service Center implemented GASB 75, which establishes standards for measuring and recognizing OPEB liabilities, deferred outflows/inflows of resources and expense/expenditure. The implementation of this GASB statement resulted in a significant change to the financial statements for the Educational Service Center.

- During fiscal year 2018, employees received a 2.25 percent salary increase. Health care costs increased as well due to a premium increase of 7.5 percent effective January 1, 2018. The net effect was a decrease in expenditures for the year for the general fund.

- The Educational Service Center is committed to meeting the academic needs of our students and providing them with updated instructional materials to compete in the global environment.

Using this Annual Financial Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances.

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide services, the view of the Educational Service Center as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this fiscal year than last?" and "Why?" or "Why not?". The *Statement of Net Position* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all non-fiduciary assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. Accrual 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 Educational Service Center's *net position* and any changes in the net position. The change in net position is important because it tells the readers that, for the Educational Service Center as a whole, the *financial position* of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The *Statement of Net Position* and the *Statement of Activities* are represented by one type of activity, Governmental Activities. The Educational Service Center's programs and services are reported here including instruction and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 12. Fund financial reports provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the general fund.

Governmental Funds Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using 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 Educational 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.

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

The Educational Service Center as a Whole

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

(Table 1)
Net Position

	Governmental Activities		
	2018	2017	Change
Assets			
Current and Other Assets	$8,887,316	$8,772,436	$114,880
Capital Assets, Net	269,422	214,698	54,724
Total Assets	9,156,738	8,987,134	169,604
Deferred Outflows of Resources			
Pension	6,599,179	5,849,881	749,298
OPEB	239,248	62,106	177,142
Total Deferred Outflows of Resources	6,838,427	5,911,987	926,440
Liabilities			
Current and Other Liabilities	2,388,162	2,394,479	6,317
Long-Term Liabilities:			
Due Within One Year	33,408	51,546	18,138
Due in More than One Year			
Net Pension Liability	22,110,312	30,457,002	8,346,690
Net OPEB Liability	5,210,561	6,481,130	1,270,569
Other Amounts	712,985	705,668	(7,317)
Total Liabilities	30,455,428	40,089,825	9,634,397
Deferred Inflows of Resources			
Pension	1,124,154	389,912	734,242
OPEB	652,305	0	652,305
Total Deferred Outflows of Resources	1,776,459	389,912	1,386,547
Net Position			
Net Investment in Capital Assets	269,422	201,851	67,571
Restricted	1,540	11,462	(9,922)
Unrestricted (Deficit)	(16,507,684)	(25,793,929)	9,286,245
Total Net Position	($16,236,722)	($25,580,616)	$9,343,894

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

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

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

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

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

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

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

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

As a result of implementing GASB 75, the Educational Service Center is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2017, from ($19,161,592) to ($25,580,616).

Overall assets increased from fiscal year 2017 levels. The most significant change in assets was the increase in capital assets. Capital assets increased due to the Education Service Center investing in new computer equipment.

Total liabilities decreased compared to fiscal year 2017 due to the change in net pension liability. The decrease in the net pension liability resulted from changes in assumptions and benefit terms. Current liabilities decreased mainly due to fewer severance payments to retiring employees still outstanding at the end of the fiscal year compared to 2017 as well as decreases in intergovernmental payables.

The net effect of the increases in assets and liabilities resulted in an increase of total net position for fiscal year 2018.

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)
Change in Net Position
Governmental Activities

	2018	2017	Change
Revenues			
Program Revenues:			
Charges for Services and Sales	$16,049,081	$15,493,313	$555,768
Operating Grants and Contributions	487,830	379,333	108,497
Total Program Revenues	16,536,911	15,872,646	664,265
General Revenues:			
Grants and Entitlements	855,213	861,667	(6,454)
Investment Earnings	53,638	5,213	48,425
Unrestricted Contributions and Donations	26,000	14,500	11,500
Miscellaneous	22,850	43,162	(20,312)
Total General Revenues	957,701	924,542	33,159
Total Revenues	$17,494,612	$16,797,188	$697,424

(Table 2)
Change in Net Position (continued)
Governmental Activities

	2018	2017	Change
Program Expenses			
Instruction	$4,581,486	$8,372,740	$3,791,254
Support Services:			
Pupil and Instructional Staff	1,662,881	6,327,867	4,664,986
Board of Education, Administration, Fiscal and Business	1,355,882	1,992,240	636,358
Operation and Maintenance of Plant	34,327	206,783	172,456
Pupil Transportation	5,183	17,824	12,641
Central	510,635	634,042	123,407
Interest and Fiscal Charges	324	902	578
Total Program Expenses	8,150,718	17,552,398	9,401,680
Increase (Decrease) in Net Position	9,343,894	(755,210)	10,099,104
Net Position Beginning of Year	(25,580,616)	N/A	
Net Position End of Year	($16,236,722)	($25,580,616)	($9,343,894)

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 $62,106 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 $716,987. Consequently, in order to compare 2018 total program expenses to 2017, the following adjustments are needed:

Total 2018 program expenses under GASB 75	$8,150,718
Negative OPEB expense under GASB 75	716,987
2018 contractually required contribution	78,419
Adjusted 2018 program expenses	8,946,124
Total 2017 program expenses under GASB 45	17,552,398
Decrease in program expenses not related to OPEB	($8,606,274)

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions. STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). SERS decreased their COLA assumption. (See Note 16) As a result of these changes, pension expense decreased from $2,398,545 in fiscal year 2017 to a negative pension expense of $6,841,346 for fiscal year 2018. The allocation of the fiscal year 2018 negative pension expense to program expenses is as follows:

Program Expenses	2018 Program Expenses Related to Negative Pension Expense
Instruction:	
Regular	($318,759)
Special	(2,407,071)
Support Services:	
Pupils	(2,548,381)
Instructional Staff	(799,467)
Board of Education	(236)
Administration	(662,887)
Fiscal	(20,289)
Business	(816)
Central	(83,440)
Total Expenses	($6,841,346)

The Educational Service Center relies heavily upon contracts with various school districts to support its operations. The Educational Service Center also actively solicits and receives additional grant and entitlement funds to help offset operating costs. The increase in operating grants is due to an increase in several of the state grants the Educational Service Center receives including the public preschool grant and the STEAM grant.

Instruction expenses comprise the largest portion of all program expenses for the Educational Service Center. These expenses pay for teacher salary and benefits which increase at set levels every year through negotiated agreements. Instructional expenses decreased due to the large negative pension expense related to the net pension liability this was partially offset by salary and benefit increases. For fiscal year 2018, Educational Service Center employees received a 2.25 percent salary increase. Health care costs increased as well. In fiscal year 2018, there was a 7.5 percent medical premium increase effective January 1, 2018.

Governmental Activities

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Educational Service Center's concept of bringing its fiscal agencies under a common campus to align services, share resources and create economies of scale does work. A willingness to honestly assess programs and discontinue unprofitable ones is key to long term operations. Flexibility and adherence to basic management principles is key to continued successful operations.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The $8,386,193 *Net Cost of Services 2018* tells the reader that overall these services are not self-supporting and must rely on unrestricted State entitlements and unrestricted net position to operate this fiscal year.

(Table 3)
Governmental Activities

	Total Cost of Services 2018	Net Cost of Services 2018	Total Cost of Services 2017	Net Cost of Services 2017
Instruction	$4,581,486	$4,034,981	$8,372,740	($128,512)
Support Services:				
Pupil and Instructional Staff	1,662,881	4,610,392	6,327,867	(95,245)
Board of Education, Administration, Fiscal and Business	1,355,882	289,489	1,992,240	(598,244)
Operation and Maintenance of Plant	34,327	(34,327)	206,783	(206,783)
Pupil Transportation	5,183	(5,183)	17,824	(17,824)
Central	510,635	(508,835)	634,042	(632,242)
Interest and Fiscal Charges	324	(324)	902	(902)
Totals	$8,150,718	$8,386,193	$17,552,398	($1,679,752)

The Educational Service Center's Funds

Information about the Educational Service Center's major funds begins with the balance sheet. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of $17,748,077 and total expenditures of $17,373,415, leaving a fund balance at fiscal year-end of $5,441,452.

The general fund had an increase in fund balance due to revenues exceeding expenditures in the current fiscal year. Tuition and fees increased for the current year and expenditures increased due to the increase in salaries and health care costs. The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Educational Service Center from its competition. The downside to such a philosophy is that the Educational Service Center will be an early barometer to cutbacks and difficult economic times. The nature of school employment law does make the Educational Service Center vulnerable to second-guessing the best management approach to riding out the downturn.

Capital Assets

Table 4 shows fiscal year 2018 balances compared to fiscal year 2017. More detailed information is presented in Note 8 of the notes to the basic financial statements.

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

	Governmental Activities 2018	Governmental Activities 2017
Furniture, Equipment and Textbooks	$256,133	$198,154
Vehicles	13,289	16,544
Total Capital Assets	$269,422	$214,698

The increase in capital assets is mainly due to current year additions offset by an additional year of depreciation. The Educational Service Center purchased several projectors, computer equipment and audiology equipment.

Long-term Liabilities

At June 30, 2018, The Educational Service Center's long-term liabilities consisted of compensated absences as well as the net pension liability and net OPEB liability. The Educational Service Center's compensated absences increased $2,026 from $744,367 to $746,393. Additional information on the Educational Service Center's long-term liabilities can be found in Notes 13 of the notes to the basic financial statements.

Current Financial Related Activities

The Educational Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. As the preceding analysis demonstrates, the Educational Service Center relies heavily on contracts with local, city and exempted village school districts in Trumbull County, State foundation revenue and operating grants. During 2018, the overall financial impact of contracts for services provided to Trumbull County districts remained consistent with the prior fiscal year. Opportunities for new contracts and the Educational Service Center's available cash balance will provide the Educational Service Center with the necessary funds to meet its operating needs going forward. Under HB153, which was effective for fiscal year 2014, local, city and exempted village school districts were given the option to choose any ESC for services; all of the School Districts in Trumbull County have signed contracts with the Trumbull County Educational Service Center.

One challenge facing the Educational Service Center is the decline in enrollment in Trumbull County over the past several years and the projected decline in the future. The Educational Service Center receives funding based on the Average Daily Membership (ADM) of the Trumbull County school districts. The continued decline in ADM will directly impact per-pupil funding from the State of Ohio.

Another challenge facing the Educational Service Center is the need to provide additional contract services to Trumbull County School Districts to offset declining State support. The Educational Service Center constantly strives to provide more services in the most cost efficient manner.

The Educational Service Center's systems of budgeting and internal controls are well regarded. All of the Educational Service Center's financial abilities will be necessary to meet the financial challenges of the future.

Contacting the Educational Service Center's Financial Management

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Lori Simione, Treasurer at the Educational Service Center, 6000 Youngstown-Warren, Niles, Ohio 44446.

Trumbull County Educational Service Center

Statement of Net Position

June 30, 2018

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$7,362,734
Accrued Interest Receivable	19,694
Accounts Receivable	30,960
Intergovernmental Receivable	1,420,447
Prepaids	53,481
Depreciable Capital Assets, Net	269,422
Total Assets	9,156,738
Deferred Outflows of Resources	
Pension	6,599,179
OPEB	239,248
Total Deferred Outflows of Resources	6,838,427
Liabilities	
Accrued Wages and Benefits	1,862,536
Intergovernmental Payable	516,889
Matured Compensated Absences Payable	8,737
Long-Term Liabilities:	
Due Within One Year	33,408
Due In More Than One Year	
Net Pension Liability (Note 10)	22,110,312
Net OPEB Liability (Note 11)	5,210,561
Other Amounts	712,985
Total Liabilities	30,455,428
Deferred Inflows of Resources	
Pension	1,124,154
OPEB	652,305
Total Deferred Outflows of Resources	1,776,459
Net Position	
Investment in Capital Assets	269,422
Restricted for Other Purposes	1,540
Unrestricted (Deficit)	(16,507,684)
Total Net Position	($16,236,722)

See accompanying notes to the basic financial statements

Trumbull County Educational Service Center

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 Revenue (Expense) and Changes in Net Position: Governmental Activities
Governmental Activities				
Instruction:				
Regular	$364,685	$514,766	$232,477	$382,558
Special	4,216,801	7,647,966	221,258	3,652,423
Support Services:				
Pupil	1,287,714	4,759,434	32,111	3,503,831
Instructional Staff	375,167	1,481,728	0	1,106,561
Board of Education	273,367	0	0	(273,367)
Administration	722,218	1,645,187	184	923,153
Fiscal	349,244	0	0	(349,244)
Business	11,053	0	0	(11,053)
Operation and Maintenance of Plant	34,327	0	0	(34,327)
Pupil Transportation	5,183	0	0	(5,183)
Central	510,635	0	1,800	(508,835)
Interest and Fiscal Charges	324	0	0	(324)
Totals	$8,150,718	$16,049,081	$487,830	8,386,193

General Revenues	
Grants and Entitlements not Restricted to Specific Programs	855,213
Investment Earnings	53,638
Unrestricted Contributions and Donations	26,000
Miscellaneous	22,850
Total General Revenues	957,701
Change in Net Position	9,343,894
Net Position Beginning of Year - Restated (See Note 18)	(25,580,616)
Net Position End of Year	($16,236,722)

See accompanying notes to the basic financial statements

Trumbull County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2018

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	$7,353,527	$9,207	$7,362,734
Accrued Interest Receivable	19,694	0	19,694
Accounts Receivable	30,395	565	30,960
Intergovernmental Receivable	1,419,047	1,400	1,420,447
Prepaids	53,156	325	53,481
Total Assets	$8,875,819	$11,497	$8,887,316
Liabilities			
Accrued Wages and Benefits	$1,812,746	$49,790	$1,862,536
Intergovernmental Payable	509,706	7,183	516,889
Matured Compensated Absences Payable	8,737	0	8,737
Total Liabilities	2,331,189	56,973	2,388,162
Deferred Inflows of Resources			
Unavailable Revenue	1,056,302	1,400	1,057,702
Fund Balances			
Nonspendable	53,166	325	53,491
Committed	0	9,772	9,772
Assigned	14,768	0	14,768
Unassigned (Deficit)	5,420,394	(56,973)	5,363,421
Total Fund Balances (Deficit)	5,488,328	(46,876)	5,441,452
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$8,875,819	$11,497	$8,887,316

See accompanying notes to the basic financial statements

Trumbull County Educational Service Center

Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2018

Total Governmental Fund Balances		$5,441,452
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.		269,422
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:		
Tuition and Fees	1,056,302	
Intergovernmental	1,400	
Total		1,057,702
The net pension liability and net OPEB is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental fund:		
Deferred Outflows - Pension	6,599,179	
Deferred Inflows - Pension	(1,124,154)	
Net Pension Liability	(22,110,312)	
Deferred Outflows - OPEB	239,248	
Deferred Inflows - OPEB	(652,305)	
Net OPEB Liability	(5,210,561)	
Total		(22,258,905)
Long-term liabilities, such as compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(746,393)
Net Position of Governmental Activities		($16,236,722)

See accompanying notes to the basic financial statements

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

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	$855,213	$485,865	$1,341,078
Interest	53,638	0	53,638
Tuition and Fees	16,267,495	0	16,267,495
Charges for Services	35,571	0	35,571
Extracurricular Activities	880	0	880
Contributions and Donations	26,000	565	26,565
Miscellaneous	22,850	0	22,850
Total Revenues	17,261,647	486,430	17,748,077
Expenditures			
Current:			
Instruction:			
Regular	497,068	272,094	769,162
Special	7,353,261	223,299	7,576,560
Support Services:			
Pupil	4,593,663	32,794	4,626,457
Instructional Staff	1,428,772	7,276	1,436,048
Board of Education	273,910	0	273,910
Administration	1,583,912	180	1,584,092
Fiscal	408,155	0	408,155
Business	9,818	0	9,818
Operation and Maintenance of Plant	34,327	0	34,327
Pupil Transportation	5,183	0	5,183
Central	634,732	1,800	636,532
Debt Service:			
Principal Retirement	12,847	0	12,847
Interest and Fiscal Charges	324	0	324
Total Expenditures	16,835,972	537,443	17,373,415
Net Change in Fund Balances	425,675	(51,013)	374,662
Fund Balances Beginning of Year	5,062,653	4,137	5,066,790
Fund Balances (Deficit) End of Year	$5,488,328	($46,876)	$5,441,452

See accompanying notes to the basic financial statements

Trumbull County Educational Service Center

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		$374,662
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 are allocated over their useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.		
Capital Asset Additions	136,005	
Current Year Depreciation	(80,262)	
Total		55,743
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.		(1,019)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition and Fees	(254,865)	
Intergovernmental	1,400	
Total		(253,465)
Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		12,847
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		(2,026)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	1,520,400	
OPEB	78,419	
Total		1,598,819
Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
Pension	6,841,346	
OPEB	716,987	
Total		7,558,333
Change in Net Position of Governmental Activities		$9,343,894

See accompanying notes to the basic financial statements

Trumbull County Educational Service Center

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2018

Assets	
Equity in Pooled Cash and Cash Equivalents	$2,074,480
Cash and Cash Equivalents in Segregated Accounts	4,848,115
Intergovernmental Receivable	105,886
Total Assets	$7,028,481
Liabilities	
Intergovernmental Payable	$2,180,366
Claims Payable	1,622,100
Undistributed Monies	3,226,015
Total Liabilities	$7,028,481

See accompanying notes to the basic financial statements

Note 1 – Description of the Educational Service Center

The Trumbull County Educational Service Center (the Educational Service Center) is the successor to the former Trumbull County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9 in 1914. In 1995, Am Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board."

The Educational Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to fifteen local, three city, and two exempted village school districts in Trumbull County. The Board controls the Educational Service Center's staff who provide services to 26,536 students and other community members in Trumbull County.

Reporting Entity

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

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

The Educational Service Center participates in a jointly governed organization and a public entity risk pool. These organizations are the Northeast Ohio Management Information Network (NEOMIN) and Trumbull County Schools Employee Insurance Benefit Consortium (Consortium). These organizations are presented in Note 14 and 15 in the notes to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Educational Service Center, however, has only governmental activities.

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

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

Fund Accounting

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

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

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

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

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds include the Northeast Ohio Management Information Network, Trumbull County Schools Employee Insurance Benefit Consortium and the Trumbull County Transportation Consortium.

Measurement Focus

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

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. Differences between the accrual and the 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. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of fiscal year end.

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

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

Deferred Outflows/Inflows of Resources In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 10 and 11.

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 until that time. For the Educational Service Center, deferred inflows of resources include pension, OPEB plans 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 Educational Service Center, unavailable revenue includes tuition and fees and grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 17. Deferred inflows of resources related to pension and OPEB are reported on the government-wide statement of net position. (See Note 10 and 11)

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

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

Pensions/Other Postemployment Benefits (OPEB)

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

Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2018, the investments were limited to STAR Ohio, federal national mortgage association notes, federal farm credit bank notes, federal home loan mortgage corporation notes, federal home loan bank notes and US Treasury Notes. Except STAR Ohio, investments are reported at fair value which is based on quoted market prices.

During Fiscal Year 2018, the Educational Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

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

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2018 amounted to $53,638 which includes $67 assigned from other Educational Service Center 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 Educational Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

Capital Assets

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

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

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

Description	Estimated Lives
Furniture, Equipment and Textbooks	3-20 years
Vehicles	6-10 years

Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for classified, certified and administrative employees at least fifty years of age with at least 10 years of service and any age with at least 20 years of service.

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

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

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, 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 the 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.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes the public school preschool, professional development and limited English proficiency.

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

Fund Balance

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

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted 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 and authorized purchase commitments by the Educational Service Center Governing Board or Educational Service Center official delegated that authority by resolution or by State Statue. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Governing Board assigned fund balance for the positive education programs. The Governing Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget in the General Fund.

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

The Educational Service Center 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.

Prepaids

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

Estimates

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

Note 3 - Fund Balances

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

Fund Balances	General	Other Governmental Funds	Total
Nonspendable			
Prepaids	$53,156	$325	$53,481
Unclaimed Monies	10	0	10
Total Nonspendable	53,166	325	53,491
Committed to			
Other Purposes	0	3,068	3,068
Special Education	0	4,098	4,098
Technology Improvements	0	1,756	1,756
Trumbull Virtual Learning Academy	0	850	850
Total Committed	0	9,772	9,772
Assigned to			
Positive Education Program	2,659	0	2,659
Purchases on Order			
Salaries	10,000	0	10,000
Purchase Services	2,001	0	2,001
Materials and Supplies	108	0	108
Total Assigned	14,768	0	14,768
Unassigned (Deficit)	5,420,394	(56,973)	5,363,421
Total Fund Balances (Deficit)	$5,488,328	($46,876)	$5,441,452

Note 4 – Fund Deficits

At June 30, 2018, the public preschool grant special revenue fund had a fund deficit of $56,973. This deficit is due to adjustments for accrued liabilities. The general fund is liable for any deficit in this fund and provides transfers when cash is required, rather than when accruals occur.

Note 5 – Deposits and Investments

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

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

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

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

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

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

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

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

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

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

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

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

8. Commercial paper notes, limited to 40 percent (5 percent for a single issuer) in total of the interim monies available for investment at any one time and for a period not to exceed two hundred seventy days; and,

9. Bankers acceptances, limited to 40 percent of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days.

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 dent of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial Credit Risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2018, $2,519,848 of the Educational Service Center’s bank balance of $4,340,293 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. The Educational Service Center’s financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

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

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

Investments

As of June 30, 2018, the Educational Service Center had the following investments. All investments are in an internal investment pool.

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percentage of Total Investments
Net Asset Value Per Share				
STAR Ohio	$56,835	Average 48.9 Days	AAAm	N/A
Fair Value - Level Two Inputs				
Federal National Mortgage Association Notes	993,093	Less than one year	AA+	9.98%
Federal National Mortgage Association Notes	639,402	Less than two years	AA+	6.43%
Federal National Mortgage Association Notes	97,366	Less than three years	AA+	0.98%
Federal Farm Credit Bank Notes	249,897	Less than five years	AA+	2.51%
Federal Home Loan Mortgage Corporation Notes	246,225	Less than two years	AA+	2.47%
Federal Home Loan Mortgage Corporation Notes	784,983	Less than three years	AA+	7.89%
Federal Home Loan Bank Notes	495,620	Less than one year	AA+	4.98%
Federal Home Loan Bank Notes	245,517	Less than five years	AA+	2.47%
US Treasury Notes	1,497,150	Less than one year	AA+	15.04%
US Treasury Notes	1,726,072	Less than two years	AA+	17.35%
US Treasury Notes	2,439,090	Less than three years	AA+	24.51%
US Treasury Notes	480,058	Less than five years	AA+	4.82%
Total Fair Value - Level Two Inputs	9,894,473			
Total	$9,951,308			

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

Interest Rate Risk The Educational Service Center has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk The Standard and Poor's rating of the Educational Service Center's investment is listed in the table above. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that would further limit its investment choices.

Concentration of Credit Risk The Educational Service Center places no limit on the amount it may invest in any one issuer.

Note 6 – Receivables

Receivables at June 30, 2018, consisted of accounts and intergovernmental grants. All receivables are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activites	Amounts
Customer Services	$1,347,808
Bureau of Worker's Compenation	71,239
Title III Grant	1,106
School Psych Intern Grant	294
Total	$1,420,447

Note 7 – State Funding

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

The Educational Service Center also receives funding from the State Department of Education in the amount of $26 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center’s territory and all of the Educational 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 Educational Service Center’s local and client school districts an amount equal to $8.50 times the school district’s total student count and remits this amount to the Educational Service Center.

The Educational 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 Educational Service Center.

Note 8 – Capital Assets

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

	Balance 6/30/17	Additions	Deletions	Balance 6/30/18
Governmental Activities				
Capital Assets, being depreciated:				
Furniture, Equipment and Textbooks	$1,159,512	$136,005	($60,307)	$1,235,210
Vehicles	22,783	0	0	22,783
Total Capital Assets, being depreciated	1,182,295	136,005	(60,307)	1,257,993
Less Accumulated Depreciation				
Furniture, Equipment and Textbooks	(961,358)	(77,007)	59,288	(979,077)
Vehicles	(6,239)	(3,255)	0	(9,494)
Total Accumulated Depreciation	(967,597)	(80,262) *	59,288	(988,571)
Total Capital Assets, being depreciated, net	214,698	55,743	(1,019)	269,422
Governmental Activities Capital Assets, Net	$214,698	$55,743	($1,019)	$269,422

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$789
Special	13,332
Support Services:	
Pupil	6,471
Instructional Staff	8,020
Administration	12,426
Fiscal	8,088
Business	3,255
Central	27,881
Total Depreciation Expense	$80,262

Note 9 – Risk Management

Property and Liability

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

Type	Amount
Property Liability:	
Blanket Building and Personal Property	$2,908,777
Deductible	2,500
Inland Marine:	
Computer Hardware	750,000
Computer Software	200,000
Extra Expense	50,000
Umbrella Coverage:	
Each Occurrence	4,000,000
Aggregate Limit	4,000,000
General Liability:	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000
Products - Completed Operations Aggregate Limit	3,000,000
Personal and Advertising Injury Limit - Each Offense	1,000,000
Fire Damage Limit - Any One Event	300,000
Medical Expense Limit	15,000
Employees' Liability	
Each Offense	1,000,000
Aggregate	3,000,000
Sexual Misconduct and Molestation Liability:	
Each Occurrence	1,000,000
Aggregate	1,000,000
Innocent Party Defense	300,000
School Leaders Errors and Omissions Liability:	
Injury Limit	1,000,000
Aggregate Limit	1,000,000
Non-monetary Relief Defense	100,000
Vehicle Liability	
Single Occurrence Limitation	1,000,000
Deductible for Comprehensive	250
Deductible for Collision	500

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

Workers' Compensation

The Educational Service Center pays a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sheakley UniServices, Inc. provides administrative, cost control and actuarial services to the Educational Service Center.

Employee Health Benefits

The Educational Service Center has contracted with Trumbull County Schools Employee Insurance Benefit Consortium (the Consortium) to provide employee medical/surgical and dental benefits. (See Note 15) The Consortium is a shared risk pool comprised of seventeen Trumbull County School Districts and the Educational Service Center. The Educational Service Center is the fiscal agent for the Consortium. Rates are set through an annual calculation process. The Educational Service Center pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating school districts. Claims are paid for all participants regardless of claims flow. The Executive Committee of the Consortium has the right to return monies to an exiting School District subsequent to the settlements of all expenses and claims. The premiums are set up on a two - tier system.

Premiums By Plan Type	Single	Family
Medical Mutual PPO Plan 1	$666.60	$1,733.81
Medical Mutual PPO Plan 2	598.26	1,556.65
Medical Mutual PPO Plan 3	529.96	1,379.52
Dental	26.08	81.65
Life ($50,000 coverage)	5.75	

The Educational Service Center pays 90 percent of medical premiums for classified and certified employees enrolled in PPO Plans 1 and 2. For classified and certified employees enrolled in PPO Plan 3, the Educational Service Center pays 100 percent of the cost of premiums. The Educational Service Center pays 100 percent of dental and life premiums for both classified and certified employees. For administrative employees, the ESC pays 90 percent and administrators pay 10 percent of the cost of premiums.

Note 10 – Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension/OBEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 11 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Educational Service Center's contractually required contribution to SERS was $367,538 for fiscal year 2018. Of this amount $49,050 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes 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, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2018 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was $1,152,862 for fiscal year 2018. Of this amount $177,432 is reported as an intergovernmental payable.

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

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

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.08884882%	0.07156239%	
Proportion of the Net Pension Liability Current Measurement Date	0.08614955%	0.07140776%	
Change in Proportionate Share	-0.00269927%	-0.00015463%	
Proportionate Share of the Net Pension Liability	$5,147,246	$16,963,066	$22,110,312
Pension Expense	($239,961)	($6,601,385)	($6,841,346)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$221,520	$655,034	$876,554
Changes of assumptions	266,169	3,710,009	3,976,178
Changes in proportionate Share and difference between Educational Service Center contributions and proportionate share of contributions	78,826	147,221	226,047
Educational Service Center contributions subsequent to the measurement date	367,538	1,152,862	1,520,400
Total Deferred Outflows of Resources	$934,053	$5,665,126	$6,599,179
Deferred Inflows of Resources			
Differences between expected and actual experience	$0	$136,716	$136,716
Net difference between projected and actual earnings on pension plan investments	24,433	559,801	584,234
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	183,077	220,127	403,204
Total Deferred Inflows of Resources	$207,510	$916,644	$1,124,154

$1,520,400 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	$146,747	$711,844	$858,591
2020	288,315	1,473,366	1,761,681
2021	43,936	1,123,451	1,167,387
2022	(119,993)	286,959	166,966
Total	$359,005	$3,595,620	$3,954,625

Actuarial Assumptions - SERS

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

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

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

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

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

For 2017, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members 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 most recent experience study was completed for the five year period ended June 30, 2015.

The long-term return expectation for the Pension Plan Investments has been determined 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 rebalanced uncorrelated asset classes.

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	$7,143,039	$5,147,246	$3,475,361

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	$24,315,978	$16,963,066	$10,769,340

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2018, four members of the Governing Board have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 11 – Defined Benefit OPEB Plans

See note 10 for a description of the net OPEB liability.

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2018, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2018, this amount was $23,700. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2018, the Educational Service Center's surcharge obligation was $64,337.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was $78,419 for fiscal year 2018. Of this amount $66,154 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 Educational Service Center's proportion of the net OPEB liability was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportion of the Net OPEB Liability Prior Measurement Date	0.09310915%	0.07156239%	
Proportion of the Net OPEB Liability Current Measurement Date	0.09034026%	0.07140776%	
Change in Proportionate Share	-0.00276889%	-0.00015463%	
Proportionate Share of the Net OPEB Liability	$2,424,494	$2,786,067	$5,210,561
OPEB Expense	$134,351	($851,338)	($716,987)

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$0	$160,829	$160,829
School District contributions subsequent to the measurement date	78,419	0	78,419
Total Deferred Outflows of Resources	$78,419	$160,829	$239,248
Deferred Inflows of Resources			
Changes of assumptions	$230,072	$224,427	$454,499
Net difference between projected and actual earnings on OPEB plan investments	6,403	119,083	125,486
Changes in Proportionate Share and Difference between School District contributions and proportionate share of contributions	65,231	7,089	72,320
Total Deferred Inflows of Resources	$301,706	$350,599	$652,305

$78,419 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2019	($108,594)	($41,551)	($150,145)
2020	(108,594)	(41,551)	(150,145)
2021	(82,917)	(41,551)	(124,468)
2022	(1,601)	(41,552)	(43,153)
2023	0	(11,781)	(11,781)
Thereafter	0	(11,784)	(11,784)
Total	($301,706)	($189,770)	($491,476)

Actuarial Assumptions - SERS

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

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

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

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

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

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

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

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 SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 10.

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

	1% Decrease (2.63%)	Current Discount Rate (3.63%)	1% Increase (4.63%)
Educational Service Center's proportionate share of the net OPEB liability	$2,927,887	$2,424,494	$2,025,681

	1% Decrease (6.5 % decreasing to 4.0 %)	Current Trend Rate (7.5 % decreasing to 5.0 %)	1% Increase (8.5 % decreasing to 6.0 %)
Educational Service Center's proportionate share of the net OPEB liability	$1,967,296	$2,424,494	$3,029,606

Actuarial Assumptions – STRS

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017
Blended Discount Rate of Return	4.13 percent
Health Care Cost Trends	6 to 11 percent initial, 4.5 percent ultimate

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

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.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 10.

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

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

	1% Decrease (3.13%)	Current Discount Rate (4.13%)	1% Increase (5.13%)
Educational Service Center's proportionate share of the net OPEB liability	$3,740,251	$2,786,067	$2,031,951

	1% Decrease	Current Trend Rate	1% Increase
Educational Service Center's proportionate share of the net OPEB liability	$1,935,640	$2,786,067	$3,905,329

Note 12 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Vacation is paid upon separation. All employees earn sick leave at a rate of one and one-fourth days per month.

Upon retirement, certified and classified employees who meet the retirement provisions set by STRS and SERS and have ten or more years of service with the State and five or more years with the Educational Service Center are paid twenty five percent of their accumulated sick days up to a maximum accumulation of 70 days.

Life Insurance

The Educational Service Center provides life insurance in the amount of $50,000 to all full-time employees.

Note 13 – Long-Term Obligations

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

	Outstanding June 30, 2017	Additions	Deductions	Outstanding June 30, 2018	Due Within One Year
Net Pension Liability					
STRS	$23,954,088	$0	$6,991,022	$16,963,066	$0
SERS	6,502,914	0	1,355,668	5,147,246	0
Total Net Pension Liability	$30,457,002	$0	$8,346,690	$22,110,312	$0

	Outstanding June 30, 2017	Additions	Deductions	Outstanding June 30, 2018	Due Within One Year
Net OPEB Liability					
STRS	$3,827,175	$0	$1,041,108	$2,786,067	$0
SERS	2,653,955	0	229,461	2,424,494	0
Total Net Pension Liability	6,481,130	0	1,270,569	5,210,561	0
Capital Leases	12,847	0	12,847	0	0
Compensated Absences	744,367	137,787	135,761	746,393	33,408
Total	$37,695,346	$137,787	$9,765,867	$28,067,266	$33,408

The capital leases were paid from the general fund. Compensated absences will be paid from the general fund and the public school preschool special revenue fund. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the following funds: general fund, public preschool, alternative schools and miscellaneous state grant special revenue funds. For additional information related to the net pension liability see Note 10 and 11.

Note 14 – Jointly Governed Organization

Northeast Ohio Management Information Network (NEOMIN) NEOMIN is a jointly governed organization among twenty-nine school districts and two educational service centers in Trumbull and Ashtabula Counties. 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 among member districts. Each of the districts supports NEOMIN based upon a per pupil charge. The Educational Service Center paid $15,978 to NEOMIN during fiscal year 2018.

The Governing board consists of ten members: The Trumbull and Ashtabula County superintendents (permanent members), three superintendents from Ashtabula County participating school districts, three superintendents from Trumbull County participating school districts, the fiscal agent (or NEOMIN). The Board exercises total control over the operations of NEOMIN including budgeting, appropriating, contracting and designating management. The degree of control exercised by any participating school district is limited to its representation on the Governing Board. The Educational Service center serves as fiscal agent for NEOMIN. Financial activity for fiscal year 2018 is reported in the basic financial statements as an agency fund. To obtain a copy of NEOMIN's financial statements, write to the Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

Note 15 – Public Entity Pool

Shared Risk Pool

Trumbull County Schools Employee Insurance Benefit Consortium The Educational Service Center participates in the Trumbull County Schools Employee Insurance Benefit Consortium. This is a shared risk pool comprised of seventeen Trumbull County School Districts. The Consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve as the Board of Directors. The assembly exercises control over the operation of the Consortium. Consortium revenues are generated from charges for services. The Educational Service Center serves as the Consortium's fiscal agent and the Treasurer of the Consortium is the Treasurer of the fiscal agent. Financial assets and liabilities for fiscal year 2018 are reported in the basic financial statements as an agency fund. Financial information is available from the Educational Service Center, 6000 Youngstown Warren Road, Niles, Ohio 44446.

Note 16 - Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General	$12,124

Note 17 – Contingencies

Grants

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

Litigation

The Educational Service Center is not a party to legal proceedings.

Note 18 – Change in Accounting Principles and Restatement of Net Position

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

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

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

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

Net Position June 30, 2017	($19,161,592)
Adjustments:	
Net OPEB Liability	(6,481,130)
Deferred Outflow - Payments Subsequent to Measurement Date	62,106
Restated Net Position June 30, 2017	($25,580,616)

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

Trumbull County Educational Service Center

Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
Revenues				
Intergovernmental	$791,000	$791,000	$790,185	($815)
Interest	50,000	50,000	87,803	37,803
Tuition and Fees	15,708,300	15,708,300	16,432,144	723,844
Charges for Services	25,000	28,000	38,465	10,465
Extracurricular Activities	100	100	880	780
Contributions and Donations	12,000	12,000	26,000	14,000
Miscellaneous	28,000	28,000	24,170	(3,830)
Total Revenues	16,614,400	16,617,400	17,399,647	782,247
Expenditures				
Current:				
Instruction:				
Regular	409,875	536,350	484,879	51,471
Special	8,004,042	7,758,180	7,340,226	417,954
Support Services:				
Pupil	4,638,499	4,891,569	4,583,314	308,255
Instructional Staff	1,642,202	1,484,472	1,420,076	64,396
Board of Education	358,615	351,297	275,275	76,022
Administration	1,765,923	1,770,606	1,583,273	187,333
Fiscal	537,362	501,393	403,246	98,147
Business	12,470	12,634	9,564	3,070
Operation and Maintenance of Plant	64,358	65,106	48,154	16,952
Pupil Transportation	7,736	7,710	5,183	2,527
Central	603,675	665,440	633,886	31,554
Total Expenditures	18,044,757	18,044,757	16,787,076	1,257,681
Net Change in Fund Balance	(1,430,357)	(1,427,357)	612,571	2,039,928
Fund Balance Beginning of Year	6,788,764	6,788,764	6,788,764	0
Prior Year Encumbrances Appropriated	5,227	5,227	5,227	0
Fund Balance End of Year	$5,363,634	$5,366,634	$7,406,562	$2,039,928

See accompanying notes to the supplemental information

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The Educational Service Center is not required under State statue to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. This is done by adopting estimated receipts and an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first estimated resources and appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final estimated resources and appropriation amounts passed by the Board during the fiscal year.

Budgetary Basis of Accounting

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

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

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

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

4. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis statements for the general fund.

Net Change in Fund Balance

	General
GAAP Basis	$425,675
Net Adjustment for Revenue Accruals	84,141
Beginning Fair Value Adjustment	(13,969)
Ending Fair Value Adjustment	67,828
Net Adjustment for Expenditure Accruals	61,020
Adjustment for Encumbrances	(12,124)
Budget Basis	$612,571

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Trumbull County Educational Service Center, Ohio

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the

Net Pension Liability

School Employees Retirement System of Ohio

Last Five Fiscal Years (1)

	2018	2017	2016
Educational Service Center's Proportion of the Net Pension Liability	0.08614955%	0.08884882%	0.08634424%
Educational Service Center's Proportionate Share of the Net Pension Liability	$5,147,246	$6,502,914	$4,926,887
Educational Service Center's Covered Payroll	$2,913,029	$2,782,679	$2,677,064
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	176.70%	233.69%	184.04%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.50%	62.98%	69.16%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available.
An additional column will be added each year.

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

See accompanying notes to the required supplementary information

2015	2014
0.09016864%	0.09016864%
$4,563,383	$5,362,040
$3,161,542	$3,146,061
144.34%	170.44%
71.70%	65.52%

Trumbull County Educational Service Center, Ohio

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability

School Employees Retirement System of Ohio

Last Two Fiscal Years (1)

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.09034026%	0.09310915%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$2,424,494	$2,653,955
Educational Service Center's Covered Payroll	$2,913,029	$2,782,679
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	83.23%	95.37%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	12.46%	11.49%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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Trumbull County Educational Service Center, Ohio

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability

School Teachers Retirement System of Ohio

Last Five Fiscal Years (1)

	2018	2017	2016
Educational Service Center's Proportion of the Net Pension Liability	0.07140776%	0.07156239%	0.07084135%
Educational Service Center's Proportionate Share of the Net Pension Liability	$16,963,066	$23,954,088	$19,578,477
Educational Service Center's Covered Payroll	$7,901,464	$7,644,121	$7,445,921
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	214.68%	313.37%	262.94%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.30%	66.80%	72.10%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

2015	2014
0.07251016%	0.07251016%
$17,603,189	$20,968,804
$7,394,346	$7,716,769
238.06%	271.73%
74.70%	69.30%

Trumbull County Educational Service Center, Ohio

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability

School Teachers Retirement System of Ohio

Last Two Fiscal Years (1)

	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.07140776%	0.07156239%
Educational Service Center's Proportionate Share of the Net OPEB Liability	$2,786,067	$3,827,175
Educational Service Center's Covered Payroll	$7,901,464	$7,644,121
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	35.26%	50.07%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	47.10%	37.30%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

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

See accompanying notes to the required supplementary information

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$367,538	$407,824	$389,575	$352,837
Contributions in Relation to the Contractually Required Contribution	(367,538)	(407,824)	(389,575)	(352,837)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll (1)	$2,722,504	$2,913,029	$2,782,679	$2,677,064
Pension Contributions as a Percentage of Covered Payroll	13.50%	14.00%	14.00%	13.18%
Net OPEB Liability				
Contractually Required Contribution (2)	78,419	62,106	59,979	78,898
Contributions in Relation to the Contractually Required Contribution	(78,419)	(62,106)	(59,979)	(78,898)
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	2.88%	2.13%	2.16%	2.95%
Total Contributions as a Percentage of Covered Payroll (2)	16.38%	16.13%	16.16%	16.13%

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

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
$438,190	$435,415	$424,397	$407,961	$435,584	$306,662
(438,190)	(435,415)	(424,397)	(407,961)	(435,584)	(306,662)
$0	$0	$0	$0	$0	$0
$3,161,542	$3,146,061	$3,155,370	$3,245,512	$3,217,019	$3,116,480
13.86%	13.84%	13.45%	12.57%	13.54%	9.84%
48,786	44,294	57,150	95,030	77,130	190,466
(48,786)	(44,294)	(57,150)	(95,030)	(77,130)	(190,466)
$0	$0	$0	$0	$0	$0
1.54%	1.41%	1.81%	2.93%	2.40%	6.11%
15.40%	15.25%	15.26%	15.50%	15.94%	15.95%

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

	2018	2017	2016	2015
Net Pension Liability				
Contractually Required Contribution	$1,152,862	$1,106,205	$1,070,177	$1,042,429
Contributions in Relation to the Contractually Required Contribution	(1,152,862)	(1,106,205)	(1,070,177)	(1,042,429)
Contribution Deficiency (Excess)	$0	$0	$0	$0
Educational Service Center Covered Payroll (1)	$8,234,729	$7,901,464	$7,644,121	$7,445,921
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%
Net OPEB Liability				
Contractually Required Contribution	$0	$0	$0	$0
Contributions in Relation to the Contractually Required Contribution	0	0	0	0
Contribution Deficiency (Excess)	$0	$0	$0	$0
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%
Total Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

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

See accompanying notes to the required supplementary information

2014	2013	2012	2011	2010	2009
$961,265	$1,003,180	$999,616	$991,835	$1,004,749	$975,308
(961,265)	(1,003,180)	(999,616)	(991,835)	(1,004,749)	(975,308)
$0	$0	$0	$0	$0	$0
$7,394,346	$7,716,769	$7,689,354	$7,629,500	$7,728,838	$7,502,369
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
$73,943	$77,168	$76,894	$76,295	$77,288	$75,024
(73,943)	(77,168)	(76,894)	(76,295)	(77,288)	(75,024)
$0	$0	$0	$0	$0	$0
1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

Net Pension Liability

Changes in Assumptions – SERS

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

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

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

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

Changes in Assumptions - STRS

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

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, ,2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

For fiscal year 2018 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% of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

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

Trumbull County Educational Service Center
Trumbull County
6000 Youngstown Warren Road
Niles, Ohio 44446

To the Governing Board:

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Trumbull County Educational Service Center, Trumbull County, Ohio (the ESC), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the ESC's basic financial statements, and have issued our report thereon dated November 5, 2018. We noted the ESC adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Charles E. Harris & Associates, Inc.
November 5, 2018

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Dave Yost • Auditor of State

TRUMBULL COUNTY EDUCATIONAL SERVICE CENTER

TRUMBULL 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
JANUARY 8, 2019

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