



***FAIRFIELD COUNTY
EDUCATIONAL SERVICE CENTER***

Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

J.L. UHRIG
AND ASSOCIATES INC.

CERTIFIED PUBLIC ACCOUNTANT AND MANAGEMENT CONSULTANTS



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FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

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Independent Accountant's Report

Board of Education
Fairfield County Educational Service Center
955 Liberty Drive
Lancaster, OH 43130

Management is responsible for the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Fairfield County Educational Service Center, as and for the year ended June 30, 2017, and related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents, in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements and Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we did not express an opinion, a conclusion, nor provide any form of assurance on these financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on page 3 through page 12 and the supplementary information on page's 49 through 52 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This information is the representation of management. This information was subject to our compilation engagement; however, we have not audited or reviewed the required supplementary information and, accordingly, do not express an opinion, a conclusion, nor provide any form of assurance on such information.

J. L. Uhrig and Associates, Inc.

J. L. UHRIG AND ASSOCIATES, INC.

November 16, 2017

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FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)*

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

Financial Highlights

- ▶ The liabilities and deferred inflows of Fairfield County Educational Service Center exceeded its assets and deferred outflows at June 30, 2017 by \$11,283,685. This balance was comprised of a \$660,766 balance net investment in capital assets and net position amounts restricted for specific purposes, and a deficit balance of \$11,944,451 in unrestricted net position.
- ▶ In total, net position of governmental activities decreased by \$431,180, which represents a 3.97 percent decrease from 2016.
- ▶ General revenues accounted for \$1,616,993 or 13.97 percent of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$9,960,524 or 86.03 percent of total revenues of \$11,577,517.
- ▶ The Educational Service Center had \$12,008,697 in expenses related to governmental activities; only \$9,960,524 of these expenses were offset by program specific charges for services and sales, grants or contributions. General revenues (primarily grants and entitlements, and contractual service fees) of \$1,616,993 were used but were not sufficient to provide for the remainder of these programs.
- ▶ The Educational Service Center recognizes two major governmental funds: the General Fund and Capital Projects Fund. In terms of dollars received and spent, the General Fund is significantly larger than all the other funds of the Educational Service Center combined. The General Fund had \$11,338,737 in revenues and \$10,813,512 in expenditures in fiscal year 2017.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are presented following the requirements of GASB Statement No. 34, and are organized so the reader can understand Fairfield County 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.

This discussion and analysis is intended to serve as an introduction to the Educational Service Center's basic financial statements. The Educational Service Center's basic financial statements are comprised of three components: the government-wide financial statements, fund financial statements and notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)*

Reporting the Educational Service Center as a Whole

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Educational Service Center's finances, in a manner similar to private-sector business. 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. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account, all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net position presents information on all of the Educational Service Center's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position are important because they serve as a useful indicator of whether the financial position of the Educational Service Center as a whole is improving or deteriorating. The cause of this change may be the result of several factors, some financial and some not. Nonfinancial factors include the Educational Service Center's facility conditions, required but unfunded educational programs, and other factors. Ultimately, the Educational Service Center's goal is to provide services to our students, not to generate profits as commercial entities do.

The statement of activities presents information showing how the Educational Service Center's net position changed during the recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected contractual service fees, and earned but unused vacation leave).

In both of the government-wide financial statements, the Educational Service Center's activities are shown as governmental activities. All of the Educational Service Center's programs and services are reported here including instructional services and support services. These services are funded primarily by charges for services, contractual service fees, and intergovernmental revenues including federal and state grants and other shared revenues.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and Capital Projects Fund.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Educational Service Center, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Educational Service Center can be divided into one of two categories: governmental and proprietary funds.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
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(Unaudited)*

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term requirements. 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.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Educational Service Center's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The Educational Service Center's proprietary fund is an internal service fund. Since the internal service fund operates on a break-even, cost-reimbursement basis, the Educational Service Center reports the proprietary fund using the accrual basis of accounting.

Notes to the Basic Financial Statements

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)*

Government-Wide Financial Analysis

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole, showing assets, liabilities, and the difference between them (net position). Table 1 provides a summary of the Educational Service Center's net position for 2017 compared to fiscal year 2016:

Table 1
Net Position at Year End
Governmental Activities

	<u>2017</u>	<u>2016</u>
<u>Assets:</u>		
Current and Other Assets	\$3,961,637	\$4,486,633
Capital Assets, Net	245,727	62,259
<i>Total Assets</i>	<u>4,207,364</u>	<u>4,548,892</u>
<u>Deferred Outflows of Resources:</u>		
Pension	<u>4,223,460</u>	<u>2,233,634</u>
<u>Liabilities:</u>		
Current and Other Liabilities	1,880,492	2,619,304
Long-Term Liabilities:		
Due Within One Year	34,000	43,722
Due in More Than One Year:		
Net Pension Liability	17,404,549	14,058,982
Other Amounts	193,862	136,683
<i>Total Liabilities</i>	<u>19,512,903</u>	<u>16,858,691</u>
<u>Deferred Inflows of Resources:</u>		
Pension	<u>201,606</u>	<u>776,340</u>
<u>Net Position:</u>		
Net Investment in Capital Assets	245,727	62,259
Restricted	415,039	449,323
Unrestricted	(11,944,451)	(11,364,087)
<i>Total Net Position</i>	<u>(\$11,283,685)</u>	<u>(\$10,852,505)</u>

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
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(Unaudited)*

Under the new standards required by GASB Statement No. 68, the net pension liability equals the Educational Service Center's proportionate share of each plan's collective:

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

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

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

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

As a result of implementing GASB Statement No. 68, the Educational Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting

Capital assets, net of accumulated depreciation increased by \$183,468 due to the additions of furniture, fixtures and equipment.

Current (other) liabilities decreased \$738,812 due primarily to decreases in accounts payable.

Long-term liabilities increased by \$3,393,024 due mostly to an increase in net pension liability.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
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(Unaudited)*

The Educational Service Center's largest portion of net position is restricted assets. The restricted net position is subject to external restrictions on how they may be used.

The Educational Service Center's smallest portion is unrestricted. Unrestricted net position represents resources that may be used to meet the Educational Service Center's ongoing obligations to its students and creditors.

The remaining balance of \$245,727 of net position is related to amounts invested in capital assets, net of related debt. The Educational Service Center used these capital assets to provide services to students; consequently, these assets are not available for future spending.

Table 2 shows the changes in net position for fiscal year 2017 and comparisons to fiscal year 2016.

Table 2
Change in Net Position

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<u>Revenues:</u>		
<i>Program Revenues:</i>		
Charges for Services and Sales	\$9,722,957	\$7,594,648
Operating Grants and Contributions	237,567	436,464
<i>General Revenues:</i>		
Unrestricted Grants and Entitlements	691,829	649,537
Unrestricted Tuition and Fees	904,110	908,456
Investment Earnings	9,679	2,662
Miscellaneous	11,375	125,593
<i>Total Revenues</i>	<u>11,577,517</u>	<u>9,717,360</u>

(Continued)

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)*

Table 2
Changes in Net Position

	<u>2017</u>	<u>2016</u>
<u>Expenses:</u>		
<i>Program Expenses:</i>		
<i>Instruction:</i>		
Regular	304,221	956,736
Special	5,908,218	5,062,252
Student Intervention Services	1,218	3,239
Other	145,259	93,599
<i>Support Services:</i>		
Pupils	2,198,486	2,030,502
Instructional Staff	919,915	1,658,994
Board of Education	21,839	23,729
Administration	1,816,412	1,636,517
Fiscal	324,238	332,368
Business	0	1,372
Operation and Maintenance of Plant	135,584	814,575
Pupil Transportation	90,415	105,353
Central	<u>142,892</u>	<u>135,066</u>
<i>Total Expenses</i>	<u>12,008,697</u>	<u>12,854,302</u>
<i>Change in Net Position</i>	(431,180)	(3,136,942)
Net Position-Beginning of Year	<u>(10,852,505)</u>	<u>(7,715,563)</u>
Net Position-End of Year	<u><u>(\$11,283,685)</u></u>	<u><u>(\$10,852,505)</u></u>

The most significant program expenses for the Educational Service Center are Special Instruction, Pupils, Administration and Instructional Staff. These programs account for 90.30 percent of the total governmental activities. Special Instruction, which accounts for 49.20 percent of the total, represents costs associated with providing educational services for handicapped, disadvantaged and other special needs students. Pupils, which represent 18.31 percent of the total cost, represent costs associated with activities designed to assess and improve the well-being of pupils and supplement the teaching process. Administration, which represents 15.13 percent of the total, represents costs associated with the overall administrative responsibility for each building and the Educational Service Center as a whole. Instructional Staff, which represents 7.66 percent of the total cost, represents costs associated with assisting the teaching staff with the content and process of educating students.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
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(Unaudited)*

The majority of the funding for the most significant programs indicated above is from charges for services, operating grants and contributions, grants and entitlements that are not restricted for specific programs, and tuition and fees. These funding sources account for 99.82 percent of total revenues.

Governmental Activities

Over the past several fiscal years, the Educational Service Center has remained in stable financial condition. This has been accomplished through good fiscal management. The Educational Service Center is heavily dependent on charges for services, tuition and fees, and intergovernmental revenue and, like most Ohio schools, is hampered by a lack of revenue growth. Tuition and fees and charges for services made up 91.79 percent and intergovernmental revenue made up 8.03 percent of the total revenue for the governmental activities in fiscal year 2017.

The Educational Service Center's intergovernmental revenue consists of school foundation basic allowance, and federal and state grants. During fiscal year 2017, the Educational Service Center received \$1,591,460 through the State's foundation program, which represents 13.74 percent of the total revenue for the governmental activities. The Educational Service Center relies heavily on this state funding to operate at the current levels of service.

Instruction accounts for 52.95 percent of governmental activities program expenses. Support services expenses make up 47.05 percent of governmental activities expenses. The statement of activities shows the cost of program services and charges for services and grants offsetting those services.

Table 3 shows, for governmental activities, the total cost of services and the net cost of services for fiscal year 2017 compared to fiscal year 2016. That is, it identifies the cost of these services supported by contractual service fees and unrestricted State entitlements.

Table 3

Net Cost of Governmental Activities

	Total Cost of Services 2017	Net Cost of Services 2017	Total Cost of Services 2016	Net Cost of Services 2016
<i>Program Expenses:</i>				
Instruction	\$6,358,916	(\$903,279)	\$6,115,826	(\$2,021,586)
Support Services	5,649,781	(1,144,894)	6,738,476	(2,801,604)
Total Expenses	<u>\$12,008,697</u>	<u>(\$2,048,173)</u>	<u>\$12,854,302</u>	<u>(\$4,823,190)</u>

The Educational Service Center's Funds

The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. (See Note 2 for discussion of significant accounting policies). All governmental funds had total revenues of \$11,585,557 and expenditures of \$11,085,347.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)*

Budget Highlights - General Fund

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a cash basis for receipts, disbursements, and encumbrances. The operating fund of the Educational Service Center is the General Fund.

During the course of fiscal year 2017, the Educational Service Center amended its General Fund budget several times. The Educational Service Center uses a modified site-based budget technique that is designed to control site budgets while providing building administrators and supervisor's flexibility for site management.

The Educational Service Center prepares and monitors a detailed cashflow plan for the General Fund. Actual cashflow is compared to monthly and year-to-date estimates, and a monthly report is prepared for top management and the Board of Education.

For the General Fund, the final budgeted revenue was \$10,944,723 representing no change from the original budgeted revenue. Actual revenues were \$143,845 or 1.31 percent more than the final budgeted amount, due to the Educational Service Center receiving more primarily in miscellaneous revenue, intergovernmental, and charges for services than expected. For the General Fund, the final budgeted expenditures were \$13,602,531 representing an increase of \$479,098 or 3.65 percent from the original budgeted expenditures of \$13,123,433. Actual expenditures were less than the final budgeted amount by \$2,721,200 or 20.01 percent due primarily to the Administration, Special Instruction, and Instructional Staff expenditures being far less than anticipated.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2017 the Educational Service Center had \$440,371 invested in capital assets, of which all was in governmental activities. That total carries an accumulated depreciation of \$194,644. Table 4 shows fiscal year 2017 balances compared to fiscal year 2016.

Table 4

Capital Assets & Accumulated Depreciation at Year End

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
<i>Depreciable Capital Assets:</i>		
Furniture, Fixtures and Equipment	\$440,371	\$233,470
<i>Less Accumulated Depreciation:</i>		
Furniture, Fixtures and Equipment	<u>194,644</u>	<u>171,211</u>
Capital Assets, Net	<u>\$245,727</u>	<u>\$62,259</u>

More detailed information pertaining to the Educational Service Center's capital asset activity can be found in Note 7 of the notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
(Unaudited)*

Debt Administration

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

More detailed information pertaining to the Educational Service Center's long-term debt activity can be found in Note 11 of the notes to the basic financial statements.

Current Issues

Fairfield Educational Service Center is financially stable, and has been over the past several years. As indicated in the preceding financial information, the Educational Service Center is dependent on intergovernmental revenue. Intergovernmental revenue does not increase solely as a result of inflation but on the rising needs of our member districts and their students. Careful financial planning and the determination to serve our districts has permitted the Educational Service Center to provide a quality education for the students of Fairfield County. The current Treasurer, Laura Cassel, was hired on July 1, 2017.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it received. If you have any questions about this report or need additional information, contact Laura Cassell, Treasurer of Fairfield Educational Service Center, 955 Liberty Drive, Lancaster, Ohio 43130.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Position

June 30, 2017

	Governmental Activities
<u>Assets:</u>	
Equity in Pooled Cash and Cash Equivalents	\$2,819,813
Intergovernmental Receivable	1,134,038
Materials and Supplies Inventory	7,786
Depreciable Capital Assets, Net	245,727
<i>Total Assets</i>	<i>4,207,364</i>
<u>Deferred Outflows of Resources:</u>	
Pension	4,223,460
<i>Total Deferred Outflows of Resources</i>	<i>4,223,460</i>
<u>Liabilities:</u>	
Accounts Payable	64,823
Accrued Wages and Benefits	850,013
Intergovernmental Payable	302,738
Matured Compensated Absences Payable	4,330
Claims Payable	658,588
<i>Long-Term Liabilities:</i>	
Due within One Year	34,000
<i>Due in More Than One Year:</i>	
Net Pension Liability	17,404,549
Other Amounts Due in More Than One Year	193,862
<i>Total Liabilities</i>	<i>19,512,903</i>
<u>Deferred Inflows of Resources:</u>	
Pension	201,606
<i>Total Deferred Inflows of Resources</i>	<i>201,606</i>
<u>Net Position:</u>	
Net Investment in Capital Assets	245,727
<i>Restricted for:</i>	
Capital Outlay	400,000
Other Purposes	15,039
Unrestricted	(11,944,451)
<i>Total Net Position</i>	<i>(\$11,283,685)</i>

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities

For the Fiscal Year Ended June 30, 2017

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<i>Governmental Activities:</i>				
<i>Instruction:</i>				
Regular	\$304,221	\$255,419	\$32,806	(\$15,996)
Special	5,908,218	5,094,332	21,870	(792,016)
Student Intervention	1,218	0	0	(1,218)
Other	145,259	0	51,210	(94,049)
<i>Support Services:</i>				
Pupils	2,198,486	1,827,680	45,723	(325,083)
Instructional Staff	919,915	761,719	49,380	(108,816)
Board of Education	21,839	0	0	(21,839)
Administration	1,816,412	1,513,315	36,578	(266,519)
Fiscal	324,238	270,492	0	(53,746)
Operation and Maintenance of Plant	135,584	0	0	(135,584)
Pupil Transportation	90,415	0	0	(90,415)
Central	142,892	0	0	(142,892)
<i>Total Governmental Activities</i>	<u>\$12,008,697</u>	<u>\$9,722,957</u>	<u>\$237,567</u>	<u>(2,048,173)</u>
 <i>General Revenues:</i>				
Grants and Entitlements not Restricted to Specific Programs				691,829
Unrestricted Tuition and Fees				904,110
Investment Earnings				9,679
Miscellaneous				11,375
<i>Total General Revenues</i>				<u>1,616,993</u>
Change in Net Position				(431,180)
<i>Net Position at Beginning of Year</i>				<u>(10,852,505)</u>
<i>Net Position at End of Year</i>				<u>(\$11,283,685)</u>

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Balance Sheet
Governmental Funds
June 30, 2017*

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets:</u>				
Equity in Pooled Cash and Cash Equivalents	\$2,418,850	\$400,000	\$0	\$2,818,850
Intergovernmental Receivable	1,091,056	0	42,982	1,134,038
Materials and Supplies Inventory	7,786	0	0	7,786
<i>Total Assets</i>	<u>\$3,517,692</u>	<u>\$400,000</u>	<u>\$42,982</u>	<u>\$3,960,674</u>
<u>Liabilities and Fund Balances:</u>				
<u>Liabilities:</u>				
Accounts Payable	\$37,271	\$0	\$27,552	\$64,823
Accrued Wages and Benefits	850,013	0	0	850,013
Intergovernmental Payable	203,316	0	391	203,707
Matured Compensated Absences Payable	4,330	0	0	4,330
<i>Total Liabilities</i>	<u>1,094,930</u>	<u>0</u>	<u>27,943</u>	<u>1,122,873</u>
<u>Deferred Inflows of Resources:</u>				
Intergovernmental	1,213	0	10,291	11,504
<i>Total Deferred Inflows of Resources</i>	<u>1,213</u>	<u>0</u>	<u>10,291</u>	<u>11,504</u>
<u>Fund Balances:</u>				
Nonspendable	7,786	0	0	7,786
Restricted	0	0	4,748	4,748
Assigned	32,902	400,000	0	432,902
Unassigned	2,380,861	0	0	2,380,861
<i>Total Fund Balances</i>	<u>2,421,549</u>	<u>400,000</u>	<u>4,748</u>	<u>2,826,297</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$3,517,692</u>	<u>\$400,000</u>	<u>\$42,982</u>	<u>\$3,960,674</u>

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Reconciliation of Total Governmental Fund Balances to

Net Position of Governmental Activities

June 30, 2017

Total Governmental Funds Balances \$2,826,297

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. 245,727

Some of the Service Center's receivables will be collected after fiscal year-end, however are not available soon enough to pay for the current period's expenditures and therefore, are deferred inflows in the funds. These receivables consist of:
Intergovernmental revenue 11,504

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:
Compensated absences (227,862)

The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:

Deferred Outflows - Pension	4,223,460	
Deferred Inflows - Pension	(201,606)	
Net Pension Liability	<u>(17,404,549)</u>	

Total (13,382,695)

Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. (756,656)

Net Position of Governmental Activities (\$11,283,685)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>				
Intergovernmental	\$690,616	\$0	\$246,820	\$937,436
Interest	9,679	0	0	9,679
Tuition and Fees	8,386,212	0	0	8,386,212
Charges for Services	2,240,855	0	0	2,240,855
Miscellaneous	11,375	0	0	11,375
<i>Total Revenues</i>	<u>11,338,737</u>	<u>0</u>	<u>246,820</u>	<u>11,585,557</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	250,108	0	27,950	278,058
Special	5,473,460	0	39,304	5,512,764
Other	32,860	0	108,963	141,823
<i>Support Services:</i>				
Pupils	1,964,347	0	19,274	1,983,621
Instructional Staff	818,421	0	14,044	832,465
Board of Education	20,679	0	0	20,679
Administration	1,610,600	0	57,701	1,668,301
Fiscal	307,397	0	0	307,397
Operation and Maintenance of Plant	117,683	0	0	117,683
Pupil Transportation	82,532	0	0	82,532
Central	135,425	0	0	135,425
Intergovernmental	0	0	4,599	4,599
<i>Total Expenditures</i>	<u>10,813,512</u>	<u>0</u>	<u>271,835</u>	<u>11,085,347</u>
<i>Net Changes in Fund Balances</i>	525,225	0	(25,015)	500,210
<i>Fund Balances at Beginning of Year</i>	<u>1,896,324</u>	<u>400,000</u>	<u>29,763</u>	<u>2,326,087</u>
<i>Fund Balances at End of Year</i>	<u>\$2,421,549</u>	<u>\$400,000</u>	<u>\$4,748</u>	<u>\$2,826,297</u>

See accompanying notes to the basic financial statements.

FAIRFIELD 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, 2017*

Net Change in Fund Balances - Total Governmental Funds	\$500,210
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	184,044
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.	(576)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues consist of: Intergovernmental revenue	(3,709)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of: Increase in compensated absences	(51,788)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred revenues.	1,050,400
Except for the amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.	(1,831,407)
The internal service funds used by management to charge the cost of insurance to individual funds and account for rotary services are not reported in the statement of activities. Governmental expenditures and the related internal service funds revenue are eliminated. The net revenue (expense) of the internal service funds is allocated among activities.	<u>(278,354)</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>(\$431,180)</u></u>
 See accompanying notes to the basic financial statements.	

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Position

Proprietary Fund

June 30, 2017

	<u>Governmental Activities</u>
	<u>Internal Service</u>
<u>Assets:</u>	
<i>Current Assets:</i>	
Equity in Pooled Cash and Cash Equivalents	\$963
<i>Total Assets</i>	<u>963</u>
<u>Liabilities:</u>	
<i>Current Liabilities:</i>	
Intergovernmental Payable	99,031
Claims Payable	<u>658,588</u>
<i>Total Liabilities</i>	<u>757,619</u>
<u>Net Position:</u>	
Unrestricted	<u>(756,656)</u>
<i>Total Net Position</i>	<u><u>(\$756,656)</u></u>

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities
	Internal Service
<u>Operating Revenues:</u>	
Charges for Services	\$2,450,737
<i>Total Operating Revenues</i>	2,450,737
<u>Operating Expenses:</u>	
Purchased Services	132,271
Claims	2,596,820
<i>Total Operating Expenses</i>	2,729,091
<i>Operating Loss</i>	(278,354)
<i>Net Position at Beginning of Year</i>	(478,302)
<i>Net Position at End of Year</i>	(\$756,656)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2017

	Governmental Activities
	Internal Service
<u>Increase (Decrease) in Cash and Cash Equivalents:</u>	
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Interfund Services Provided	\$2,450,737
Cash Payments for Goods and Services	(132,271)
Cash Payments for Claims	(2,497,254)
	(178,788)
<i>Net Cash from Operating Activities</i>	(178,788)
<i>Net Decrease in Cash and Cash Equivalents</i>	(178,788)
<i>Cash and Cash Equivalents at Beginning of Year</i>	179,751
<i>Cash and Cash Equivalents at End of Year</i>	\$963
<u>Reconciliation of Operating Loss</u>	
<u>to Net Cash from Operating Activities:</u>	
Operating Loss	(\$278,354)
<u>Adjustments to Reconcile Operating Loss</u>	
<u>to Net Cash from Operating Activities:</u>	
<i>Increase in Liabilities:</i>	
Intergovernmental Payable	99,031
Claims Payable	535
	(\$178,788)
<i>Net Cash from Operating Activities</i>	(\$178,788)

See accompanying notes to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

Description of the Educational Service Center

The Fairfield County Educational Service Center (the “Educational Service Center”) is located in Lancaster, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Amanda-Clearcreek, Berne Union, Bloom Carroll, Fairfield Union, Liberty Union-Thurston, Pickerington, Walnut Township Local School Districts and Lancaster City School District. Other entities outside Fairfield County are served on an individual contract basis for various services. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Fairfield County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center is staffed by 95 classified and 102 certified employees providing educational service to school districts.

Reporting Entity

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

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

The Educational Service Center is associated with five organizations. Four are jointly governed organizations, and one is an insurance purchasing pool. These organizations are the Metropolitan Educational Technology Association (META), the South Central Ohio Insurance Consortium, Fairfield County Council for Educational Collaboration, Eastland-Fairfield Career and Technical Schools and the Ohio School Boards Association Worker’s Compensation Group Rating Plan. Information about these organizations is presented in Note 14 and Note 15 to the basic financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

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.

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type activities. The Educational Service Center has no business-type activities.

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

Fund Financial Statements

During the year, the Educational Service Center segregates transactions related to certain 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 rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

B. Fund Accounting

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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

Governmental Funds

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

The following are the Educational Service Center's major governmental funds:

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

Capital Projects Fund- This fund is used by the District to accumulate money for one or more capital projects.

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

Proprietary Fund

The proprietary fund focus is on the determination of the change in net position, financial position and cash flows and is classified as internal service. The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Educational Service Center, or to other governments, on a cost reimbursement basis. The internal service fund of the Educational Service Center account for rotary services and a self-insurance program which provides medical and dental benefits to employees.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

Nonexchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the 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 the fiscal year-end: grants, interest, tuition and fees and charges for services.

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 the governmental funds.

E. 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. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

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

During fiscal year 2017, investments were limited to the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio’s share price which is the price the investment could be sold for on June 30, 2017.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2017 amounted to \$9,679, which includes \$1,717 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with original maturities 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.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost. Cost is determined on a first-in, first-out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost of inventory items is recorded as an expenditure in the governmental fund types when consumed or used.

G. Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported 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 fair market 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 normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	5 - 10 years

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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

H. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributed 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 payments 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 and certified employees and administrators who have at least 10 years of service with the Educational Service Center.

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

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employees will be paid.

I. Accrued Liabilities and Long-Term Liabilities

All payables, accrued liabilities and long-term liabilities 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 and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year. Long-term capital leases are recognized as a liability on the fund financial statements when due.

J. Net Position

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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

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

The Educational Service Center reports \$415,039 at fiscal year-end in restricted net position, none of which is restricted by enabling legislation.

K. Pensions

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

L. Fund Balance Reserves

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. Fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent because they are either not in a spendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because either (a) constraints imposed by law through constitutional provisions, charter requirements or enabling legislation; or (b) constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.

Committed – amounts that can only be used for specific purposes pursuant to constraints imposed by formal ordinances or resolutions of the Board of Education – the Educational Service Center’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board of Education removes the specified use by taking the same type of action as when imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – amounts constrained by the Educational Service Center’s “intent” to be used for specific purposes, but are neither restricted nor committed. The Board of Education, Superintendent and Treasurer have the authority to assign amount to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned – this is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Educational Service Center considers restricted funds to have been spent first. When expenditures are incurred for which committed, assigned or unassigned fund balances are available, the Educational Service Center considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Education has provided otherwise in its commitment or assignment actions.

M. Interfund Transactions

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

N. Estimates

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

O. Budgetary Process

The Educational Service Center's budget is prepared in accordance with the Ohio Revised Code, which only requires that the Educational Service Center adopt a budget for control purposes.

The Educational Service Center adopts its budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. The annual appropriation resolution is approved by the Board. Any revisions that alter the total of any fund appropriation must be approved by the Board. During the year, several supplemental appropriations were approved. The budget amounts in the budgetary comparisons, represent the original budgeted receipts, the final budgeted receipts, the original appropriations, and the final appropriations as amended throughout the year.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Board of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Encumbrances: As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 3 - NEW GASB PRONOUNCEMENTS

For fiscal year 2017, the Educational Service Center implemented GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”, GASB Statement No. 77, “Tax Abatement Disclosures”, GASB Statement No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”, GASB Statement No. 80, “Blending Requirements for Certain Component Units”, and GASB Statement No. 82, “Pension Issues.” The implementation of GASB Statements Nos. 74, 77, 78, 80 and 82 had no effect on the prior period fund balances of the Educational Service Center.

NOTE 4 – ACCOUNTABILITY

At June 30, 2017, the following funds had deficit fund balances:

<u>Fund</u>	<u>Amount</u>
Alternative Schools	\$281
Miscellaneous State Grants	141

The deficits in these funds resulted from the application of generally accepted accounting principles. The General Fund is liable for any deficit in these funds and provides transfers when cash is needed, rather than when accruals occur. These deficits do not exist on the cash basis.

NOTE 5 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Educational Service Center Treasury, in commercial accounts payable or withdrawal 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 be either 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 moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including passbook accounts.

Public depositories must give security for all public funds on deposit. Protection of the Educational Service Center’s deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, 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, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the fair 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 fair value daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
8. Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the Educational Service Center's deposits may not be returned. All deposits are collateralized with eligible securities. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Educational Service Center. The Educational Service Center's investment policy does not address custodial credit risk for deposits.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

At June 30, 2017, the carrying amount of all Educational Service Center deposits was \$1,292,221. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of June 30, 2017, \$250,000 of the Educational Service Center's bank balance of \$1,339,651 was covered by Federal Deposit Insurance. The remaining balance of \$1,089,651 was collateralized with securities held by the financial institution or its agency in the Educational Service Center's name.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>6 Months or Less</u>
STAROhio	<u>\$1,527,592</u>	<u>\$1,527,592</u>
Totals	<u>\$1,527,592</u>	<u>\$1,527,592</u>

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

Credit Risk: Credit risk is the risk that an issue or other counter party to an investment will not fulfill its obligations. The Educational Service Center's investment policy does not address credit risk. Standard and Poor's has assigned STAROhio an "AAAm" money market rating.

Custodial Credit Risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the Educational Service Center will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Educational Service Center policy provides that investment collateral is held by the counter party as trust department or agent, and may be held in the name of the Educational Service Center or not.

For the fiscal year 2017, Governmental Accounting Standards Board (GASB) Statement No. 72, "Fair Value Measurement and Application," was effective. These GASB pronouncements had no effect on beginning net position. Accordingly, the Educational Service Center has categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Educational Service Center's recurring fair value measurements as of June 30, 2017. All of the Educational Service Center's investments measured at fair value are valued using quoted market prices (Level 1 inputs).

The classification cash and cash equivalents, and investments are reported as equity in pooled cash and cash equivalents based on criteria set forth in GASB Statement No. 9. A reconciliation between the equity in pooled cash and cash equivalents on the financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$2,819,813	\$0
<i>Investments:</i>		
STAR Ohio	<u>(1,527,592)</u>	<u>1,527,592</u>
GASB Statement No. 3	<u>\$1,292,221</u>	<u>\$1,527,592</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 2017 consist of intergovernmental. All receivables are considered collectible in full.

The principal items that make up intergovernmental receivable follows:

Governmental Activities:

General Fund:

Tuition and Fees	\$1,091,056
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Nonmajor Funds:

Alternative Schools	7,904
Miscellaneous State Grants	<u>35,078</u>

<i>Total Intergovernmental Receivable</i>	<u>\$1,134,038</u>
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NOTE 7 - CAPITAL ASSETS

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

	<u>Balance at July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2017</u>
<i>Depreciable Capital Assets:</i>				
Furniture, Fixtures and Equipment	<u>\$233,470</u>	<u>\$218,049</u>	<u>(\$11,148)</u>	<u>\$440,371</u>
Total Depreciable Capital Assets	233,470	218,049	(11,148)	440,371
<i>Accumulated Depreciation:</i>				
Furniture, Fixtures and Equipment	<u>(171,211)</u>	<u>(34,005)</u>	<u>10,572</u>	<u>(194,644)</u>
Total Accumulated Depreciation	<u>(171,211)</u>	<u>(34,005)</u>	<u>10,572</u>	<u>(194,644)</u>
Total Net Capital Assets	<u>\$62,259</u>	<u>\$184,044</u>	<u>(\$576)</u>	<u>\$245,727</u>

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 7 - CAPITAL ASSETS - (Continued)

Depreciation expense was charged to governmental functions as follow:

<i>Instruction:</i>	
Special	\$4,174
<i>Support Services:</i>	
Pupils	1,668
Instructional Staff	220
Administration	9,610
Operation and Maintenance of Plant	17,901
Central	<u>432</u>
Total Depreciation Expense	<u><u>\$34,005</u></u>

NOTE 8 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2017, the Educational Service Center contracted through commercial carriers. Coverage's provided are as follows:

Building Contents	\$400,395
<i>General Liability:</i>	
Each Occurrence	1,000,000
Aggregate Limit	3,000,000

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

For fiscal year 2017, the Educational Service Center participated in the Ohio School Boards Association Worker's Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Hunter Consulting provides administrative, cost control and actuarial services to the GRP.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 8 - RISK MANAGEMENT - (Continued)

The Educational Service Center provides medical, prescription and dental insurance for its employees. Premiums are paid directly to the South Central Ohio Insurance Consortium (SCOIC), who then submits payments for actual claims to a third party administrator, who services all claims submitted by employees.

The Educational Service Center was self funded with the South Central Ohio Insurance Consortium effective January 1, 2002.

The South Central Ohio Insurance Consortium was established to accumulate balances sufficient to self-insure basic medical and prescription drug coverage and permit excess umbrella coverage for claims over a predetermined level. The Board's share and the employees' share of premium contributions are determined by the negotiated agreement for certificated employees and by Board action for administrators and classified employees.

Premiums are paid to the South Central Ohio Insurance Consortium Fund from the Self Insurance Fund of the Educational Service Center. The Educational Service Center had no cash balance with the fiscal agent at June 30, 2017. Claims payments are made on an as-incurred basis by the third party administrator, with the balance of contributions remaining with the Fiscal Agent of the Consortium.

The members are self insured for medical, dental and pharmacy benefits. The risk for medical, dental and pharmacy benefits remains with the member districts. The claims payable will be reported for medical, dental and pharmacy claims as of June 30, 2017, and cash with fiscal agent for the balance of funds held by the Consortium that covers medical, dental and pharmacy claims will be reported.

The claims liability of \$658,588 reported at June 30, 2017 is based on an estimate provided by the third party administrators and the requirements of Governmental Accounting Standards Board Statement No. 10 as amended by GASB Statement No. 30 which requires that a liability for unpaid claim costs, including estimates of costs related to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Changes in claims activity for the past two fiscal years are as follows:

Fiscal Year	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2016	\$300,822	\$2,333,163	\$1,975,932	\$658,053
2017	658,053	2,596,820	2,596,285	658,588

NOTE 9 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability.

Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

Plan Description - School Employees Retirement System (SERS)

Plan Description – 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.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the allocation to pension, death benefits, and Medicare B was 14 percent. None of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$328,231 for fiscal year 2017.

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 retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 65 with five years of qualifying service credit, or age 55 with 25 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2017, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 65 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2015, and was increased one percent again on July 1, 2016 when it reached 14 percent. For the fiscal year ended June 30, 2017, plan members were required to contribute 14 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$722,169 for fiscal year 2017. Of this amount \$203,707 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, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$4,325,223	\$13,079,326	\$17,404,549
Proportion of the Net Pension Liability	0.05909520%	0.03907424%	
Pension Expense	\$738,953	\$1,092,454	\$1,831,407

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and actual Experience	\$58,337	\$528,466	\$586,803
Net Difference between Projected and Actual Investment	356,769	1,085,937	1,442,706
Change in Assumptions	288,732	0	288,732
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	497,649	357,170	854,819
Educational Service Center Contributions Subsequent to the Measurement Date	<u>328,231</u>	<u>722,169</u>	<u>1,050,400</u>
Total Deferred Outflows of Resources	<u>\$1,529,718</u>	<u>\$2,693,742</u>	<u>\$4,223,460</u>
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	<u>\$0</u>	<u>\$201,606</u>	<u>\$201,606</u>
Total Deferred Inflows of Resources	<u>\$0</u>	<u>\$201,606</u>	<u>\$201,606</u>

\$1,050,400 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2018	\$382,984	\$324,262	\$707,246
2019	382,728	324,262	706,990
2020	333,218	740,971	1,074,189
2021	<u>102,557</u>	<u>380,472</u>	<u>483,029</u>
Total	<u>\$1,201,487</u>	<u>\$1,769,967</u>	<u>\$2,971,454</u>

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.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

Wage Inflation	3.0 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the RP-2014 Blue Collar Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2015.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	1.00 %	0.00 %
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	<u>10.00</u>	3.00
Total	<u>100.00 %</u>	

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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 <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Educational Service Center 's proportionate share of the net pension liability	\$5,726,326	\$4,325,223	\$3,152,442

Actuarial Assumptions - STRS

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

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

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

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

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 9 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent, and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate - The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center 's proportionate share of the net pension liability	\$17,381,361	\$13,079,326	\$9,450,305

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 10 - POSTEMPLOYMENT BENEFITS

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code Section 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. For the year ended June 30, 2017, the health care allocation is 0 percent. An addition health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. 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 2017 the minimum compensation level was established at \$23,500. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contributions assigned to health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$34,224, \$28,593 and \$22,348, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

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

State Teachers Retirement System

Plan Description – State Teachers Retirement System of Ohio (STRS Ohio) administers a pension plan that is comprised of: a Defined Benefits Plan, a self-directed Defined Contribution Plan, and a Combined Plan that is a hybrid of the Defined Benefits Plan and the Defined Contribution Plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

Pursuant to Chapter 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. 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. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015 were \$0, \$0 and \$0.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free (888) 227-7877.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 11 - LONG-TERM LIABILITIES

The changes in the Educational Service Center's long-term liabilities during fiscal year 2017 were as follows:

	Principal Outstanding at July 1, 2016	Additions	Deductions	Principal Outstanding at June 30, 2017	Amount Due In One Year
<i>Governmental Activities:</i>					
Net Pension Liability					
STRS	\$11,055,703	\$2,023,623	\$0	\$13,079,326	\$0
SERS	3,003,279	1,321,944	0	4,325,223	0
Total Net Pension Liability	<u>14,058,982</u>	<u>3,345,567</u>	<u>0</u>	<u>17,404,549</u>	<u>0</u>
Compensated Absences Payable	180,405	166,835	119,378	227,862	34,000
Total Governmental Activities Long-Term Liabilities	<u>\$14,239,387</u>	<u>\$3,512,402</u>	<u>\$119,378</u>	<u>\$17,632,411</u>	<u>\$34,000</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the fund from which the employee is paid.

NOTE 12 – FUND BALANCES

Fund balance is classified as non-spendable, 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 government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<i>Nonspendable:</i>				
Inventory	\$7,786	\$0	\$0	\$7,786
<i>Restricted:</i>				
State Grants	0	0	4,748	4,748
<i>Assigned:</i>				
<i>Encumbrances:</i>				
Special	13,450	0	0	13,450
Pupils	4,613	0	0	4,613
Instructional Staff	1,683	0	0	1,683
Administration	1,315	0	0	1,315
Fiscal	5,914	0	0	5,914
Operation and Maintenance of Plant	5,320	0	0	5,320
Pupil Transportation	607	0	0	607
Capital Projects	0	400,000	0	400,000
Total Assigned	<u>32,902</u>	<u>400,000</u>	<u>0</u>	<u>432,902</u>
Unassigned	<u>2,380,861</u>	<u>0</u>	<u>0</u>	<u>2,380,861</u>
Total Fund Balances	<u>\$2,421,549</u>	<u>\$400,000</u>	<u>\$4,748</u>	<u>\$2,826,297</u>

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 13 – ENCUMBRANCE COMMITMENTS

At June 30, 2017, the Educational Service Center had encumbrance commitments in the Governmental Funds as follows:

<u>Fund</u>	
General Fund	\$32,902
<i>Nonmajor Funds:</i>	
Miscellaneous State Grants	<u>28,552</u>
Total	<u>\$61,454</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

Metropolitan Educational Technology Association (META)

META is a jointly governed organization among school districts in Franklin, Fairfield, Madison, Pickaway and Union counties. The organization was formed for the purpose of applying modern technology, with the aid of computers and other electronic equipment, the administrative and instructional functions among member districts. Each of the member districts support META based upon a per pupil charge, dependent upon services utilized. The governing board consists of a representative from each Franklin County district. Districts outside of Franklin County are associate members and each County selects a single district to represent them on the governing board. META is its own fiscal agent. The Educational Service Center paid \$8,000 to META for services provided during fiscal year 2017. In accordance with GASB Statement No. 61, the Educational Service Center does not have any equity interest in META because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to any equity interest.

South Central Ohio Insurance Consortium

The South Central Ohio Insurance Consortium (SCOIC) is a Regional Council of Governments organized under Ohio Revised Code Chapter 167. The SCOIC's primary purpose and objective is establishing and carrying out a cooperative health program for its member organizations. The governing board consists of the superintendent or other designee appointed by each of the members of the SCOIC. The Educational Service Center does not have an ongoing financial interest in or ongoing financial responsibility for the SCOIC other than medical and dental claims paid on behalf of the Educational Service Center for its employees.

Fairfield County Council for Educational Collaboration

In accordance with the provisions of Ohio Revised Code 167 and 124.81, certain boards of education and institutions of higher education, within Fairfield County, have determined to enter into an agreement to form a council of governments. This council of governments shall be known as the Fairfield County Council for Educational Collaboration.

The purpose of the Fairfield County Council for Educational Collaboration is to bring together the public school systems and public institution for higher education in Fairfield County so they can collectively devise and provide for enhanced educational opportunities for the students and citizens of the community. The areas of interest that may be addressed by the Council include, but are not limited to, student programming, school management issues, and any other collaborative projects deemed appropriate by the governing body of the Council.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS - (Continued)

The Educational Service Center appoints the superintendent to be its representative to the Board of Directors of this council. The Educational Service Center has no ongoing financial interest or financial responsibility to the Fairfield County Council for Educational Collaboration. The Educational Service Center made no payments to the Council during the year.

Eastland -Fairfield Career and Technical School District

The Fairfield County Educational Service Center is a member of the Eastland-Fairfield Career and Technical School District. The Eastland-Fairfield Career and Technical School District has a nine-member board of education. Representatives of the Eastland-Fairfield Career and Technical School District consist of two Educational Service Centers board members who serve for two years, then the other three Educational Service Center board members which serve for the next two years. Eastland-Fairfield Career and Technical School District alternates this schedule with the Franklin County Educational Service Center. The Fairfield County Educational Service Center has no ongoing financial interest or financial responsibility to the Eastland-Fairfield Career and Technical School District. The Educational Service Center made no payments to the Eastland-Fairfield Career and Technical School District during the year.

NOTE 15 - INSURANCE PURCHASING POOL

The Educational Service Center participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Worker's Compensation Group Rating Plan (the "Plan") was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

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

NOTE 16 - CONTINGENCIES

A. Grants

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

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 16 – CONTINGENCIES - (Continued)

B. School Foundation

Educational Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, traditional school districts must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Educational Service Center, which can extend past the fiscal year end. As of the date of this report, ODE has not finalized the impact of enrollment adjustments to the June 30, 2017 fiscal year. Adjustments to foundation funding resulting from these reviews are adjusted through subsequent foundation settlement from the State.

NOTE 17 – SUBSEQUENT EVENT

The Educational Service Center hired a new treasurer effective July 1, 2017.

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FAIRFIELD EDUCATIONAL SERVICE CENTER
Schedule of the Educational Service Center's Proportionate Share of Net Pension Liability
Last Four Fiscal Years (1)

	2016	2015	2014	2013
<u>School Employees Retirement System of Ohio</u>				
Educational Service Center's Proportion of the Net Pension Liability	0.05909520%	0.05263280%	0.04484000%	0.04484000%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,325,223	\$3,003,279	\$2,269,327	\$2,666,491
Educational Service Center's Covered-Employee Payroll	\$1,994,879	\$1,780,950	\$1,424,936	\$1,283,367
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	216.82%	168.63%	159.26%	207.77%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	62.98%	69.16%	71.70%	65.52%
<u>State Teachers Retirement System of Ohio</u>				
Educational Service Center's Proportion of the Net Pension Liability	0.03907424%	0.04000316%	0.03792097%	0.03792097%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$13,079,326	\$11,055,703	\$9,223,692	\$10,987,202
Educational Service Center's Covered-Employee Payroll	\$4,193,350	\$4,217,386	\$4,269,846	\$4,225,992
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	311.91%	262.15%	216.02%	259.99%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	66.80%	72.10%	74.71%	69.30%

(1) Information prior to 2013 is not available.

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

Changes in Assumptions: For fiscal year 2017, SERS reported changes of assumptions which included a reduction in the discount rate from 7.75 percent to 7.50 percent, a decrease of wage inflation from 3.25 percent to 3.00 percent, a reduction in investment rate of return from 7.75 percent to 7.50 percent, a reduction of future salary increases, and an adjustment to assumed life expectancies as result of adopting the RP-2014 Blue Collar Mortality Table for the purpose of developing mortality rates.

FAIRFIELD EDUCATIONAL SERVICE CENTER
Schedule of the Educational Service Center's Contributions
Last Five Fiscal Years (1)

	2017	2016	2015	2014	2013
<u>School Employees Retirement System of Ohio</u>					
Contractually Required Contributions	\$328,231	\$279,283	\$234,729	\$197,496	\$177,618
Contributions in Relation to the Contractually Required Contributions	(328,231)	(279,283)	(234,729)	(197,496)	(177,618)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$2,344,507	\$1,994,879	\$1,780,950	\$1,424,936	\$1,283,367
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	13.18%	13.86%	13.84%
<u>State Teachers Retirement System of Ohio</u>					
Contractually Required Contributions	\$722,169	\$587,069	\$590,434	\$555,080	\$549,379
Contributions in Relation to the Contractually Required Contributions	(722,169)	(587,069)	(590,434)	(555,080)	(549,379)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$5,158,350	\$4,193,350	\$4,217,386	\$4,269,846	\$4,225,992
Contributions as a Percentage of Covered-Employee Payroll	14.00%	14.00%	14.00%	13.00%	13.00%

(1) Information prior to 2013 is not available.

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

Changes in Assumptions: For fiscal year 2017, SERS reported changes of assumptions which included a reduction in the discount rate from 7.75 percent to 7.50 percent, a decrease of wage inflation from 3.25 percent to 3.00 percent, a reduction in investment rate of return from 7.75 percent to 7.50 percent, a reduction of future salary increases, and an adjustment to assumed life expectancies as result of adopting the RP-2014 Blue Collar Mortality Table for the purpose of developing mortality rates.

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual (Budget Basis)*

General Fund

For the Fiscal Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues:</u>				
Intergovernmental	\$635,794	\$635,794	\$690,616	\$54,822
Interest	2,000	2,000	9,679	7,679
Tuition and Fees	8,502,331	8,502,331	8,212,901	(289,430)
Charges for Services	1,798,898	1,798,898	2,163,997	365,099
Miscellaneous	5,700	5,700	11,375	5,675
<i>Total Revenues</i>	<u>10,944,723</u>	<u>10,944,723</u>	<u>11,088,568</u>	<u>143,845</u>
<u>Expenditures:</u>				
<i>Current:</i>				
<i>Instruction:</i>				
Regular	261,797	261,845	233,501	28,344
Special	6,034,441	6,205,836	5,528,378	677,458
Other	0	47,789	32,834	14,955
<i>Support Services:</i>				
Pupils	2,042,718	2,150,828	1,983,921	166,907
Instructional Staff	1,362,231	1,384,858	827,174	557,684
Board of Education	42,562	43,193	20,673	22,520
Administration	2,582,211	2,690,556	1,609,185	1,081,371
Fiscal	335,052	349,888	315,271	34,617
Business	4,000	4,000	0	4,000
Operation and Maintenance of Plant	163,300	167,675	117,972	49,703
Pupil Transportation	123,833	123,833	85,138	38,695
Central	171,288	172,230	127,284	44,946
<i>Total Expenditures</i>	<u>13,123,433</u>	<u>13,602,531</u>	<u>10,881,331</u>	<u>2,721,200</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(2,178,710)	(2,657,808)	207,237	2,865,045
<i>Fund Balance at Beginning of Year</i>	2,176,600	2,176,600	2,176,600	0
<i>Prior Year Encumbrances Appropriated</i>	<u>2,116</u>	<u>2,116</u>	<u>2,116</u>	<u>0</u>
<i>Fund Balance at End of Year</i>	<u>\$6</u>	<u>(\$479,092)</u>	<u>\$2,385,953</u>	<u>\$2,865,045</u>

See accompanying note to the supplemental information

FAIRFIELD COUNTY EDUCATIONAL SERVICE CENTER

*Note to the Supplementary Information
For the Fiscal Year Ended June 30, 2017*

NOTE 1 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law and described earlier 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 and Actual (Budget Basis) is presented for the General Fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and modified accrual 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/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
	<u>General</u>
Budget Basis	\$207,237
<i>Adjustments:</i>	
Revenue Accruals	250,169
Expenditure Accruals	34,917
Encumbrances	<u>32,902</u>
GAAP Basis	<u><u>\$525,225</u></u>