



OHIO AUDITOR OF STATE
KEITH FABER



**EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY
MEDINA COUNTY**

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MEDINA COUNTY

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INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Medina County
Medina County
124 West Washington Street
Medina, Ohio 44256

To the Board of Governors:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Medina County, Medina County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Medina County, Medina County, Ohio, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2020, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.



Keith Faber
Auditor of State

Columbus, Ohio

November 13, 2020

Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The discussion and analysis of the Educational Service Center of Medina County's (the "Educational Service Center") financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Educational Service Center's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- Net position increased \$1.1 million which represents a 25 percent increase from 2018.
- Capital assets increased \$42,125 during fiscal year 2019.

Using this Annual Report

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

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and the Statement of Activities

While the basic financial statements contain the large number of funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2019?" The *Statement of Net Position* and the *Statement of Activities* answer this question. These statements include all assets and deferred outflows of resources and liabilities and deferred inflows of resources (except fiduciary funds) using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

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

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 only major governmental fund is the general fund.

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

Reporting the Educational Service Center's Fiduciary Responsibilities

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

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Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The Educational Service Center as a Whole

Recall that the Statement of Net Position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2019 compared to 2018:

Table 1
Net Position

	Governmental Activities		
	2019	2018	Change
Assets			
Current and Other Assets	\$ 4,197,370	\$ 3,965,591	\$ 231,779
Net OPEB Asset	207,253	0	207,253
Capital Assets	169,764	127,639	42,125
<i>Total Assets</i>	<u>4,574,387</u>	<u>4,093,230</u>	<u>481,157</u>
Deferred Outflows of Resources			
Pension & OPEB	1,636,192	2,103,269	(467,077)
Liabilities			
Other Liabilities	393,607	459,915	(66,308)
Long-Term Liabilities:			
Due Within One Year	50,692	64,930	(14,238)
Due in More Than One Year:			
Net Pension & OPEB	7,398,969	8,793,358	(1,394,389)
Other Amounts	76,429	72,415	4,014
<i>Total Liabilities</i>	<u>7,919,697</u>	<u>9,390,618</u>	<u>(1,470,921)</u>
Deferred Inflows of Resources			
Pension & OPEB	1,818,812	1,480,638	338,174
Net Position			
Investment in Capital Assets	169,764	127,639	42,125
Restricted	185,587	153,080	32,507
Unrestricted	(3,883,281)	(4,955,476)	1,072,195
<i>Total Net Position</i>	<u>\$ (3,527,930)</u>	<u>\$ (4,674,757)</u>	<u>\$ 1,146,827</u>

The net pension liability (NPL) is the largest single liability reported by the School District at June 30, 2019 and is reported pursuant to GASB Statement 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27*. In a prior period, the School District also adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than*

Educational Service Center of Medina County
Medina County, Ohio
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Pensions. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the School District's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB and the net OPEB asset.

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

GASB 68 and GASB 75 require the net pension liability and the net OPEB asset/liability to equal the School District's proportionate share of each plan's collective:

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

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

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

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are

Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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

At year end, capital assets represented 4 percent of total assets. Capital assets include furniture, fixtures, equipment and vehicles. Investment in capital assets was \$169,764 at June 30, 2019. These capital assets are used to provide services to students and are not available for future spending.

A portion of the Educational Service Center's net position, \$185,587 represents resources that are subject to external restrictions on how they may be used. The government-wide unrestricted net position was a deficit of \$3.9 million in fiscal year 2019, which is primarily caused by GASB Statement No. 68 and 75.

There was a significant change in net pension/OPEB liability/asset for the School District. These fluctuations are due to changes in the retirement systems unfunded liabilities that are passed through to the School District's financial statements. All components of pension and OPEB accruals contribute to the fluctuations in deferred outflows/inflows and NPL/NOL/NOA and are described in more detail in their respective notes.

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Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

In order to further understand what makes up the change in net position for the current year, the following table gives readers further details regarding the results of activities for 2019 and 2018.

Table 2
Changes in Net Position

	Governmental Activities		
	2018	2018	Change
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$ 4,414,584	\$ 4,389,841	\$ 24,743
Operating Grants, Contributions and Interest	126,766	111,666	15,100
Total Program Revenues	4,541,350	4,501,507	39,843
<i>General Revenues:</i>			
Grants and Entitlements Not Restricted	769,622	780,038	(10,416)
Miscellaneous	108,551	78,336	30,215
Total General Revenues	878,173	858,374	19,799
Total Revenues	5,419,523	5,359,881	59,642
Program Expenses			
<i>Instruction:</i>			
Regular	252,622	(16,618)	269,240
Special	699,890	252,960	446,930
Vocational	155,058	38,202	116,856
Adult/Continuing	3,584	390	3,194
Student Intervention Services	16,190	23,392	(7,202)
Other	2,987	(17,862)	20,849
<i>Support Services:</i>			
Pupils	848,685	608,468	240,217
Instructional Staff	507,520	222,097	285,423
Board of Governors	20,622	24,801	(4,179)
Administration	325,186	155,733	169,453
Fiscal	317,409	266,712	50,697
Business	69,002	87,560	(18,558)
Operation and Maintenance of Plant	8,254	7,565	689
Pupil Transportation	444,936	420,259	24,677
Central	572,921	541,755	31,166
<i>Operation of Non-Instructional Services</i>			
Community Services	9,492	6,356	3,136
Extracurricular Activities	18,338	15,228	3,110
Total Expenses	4,272,696	2,636,998	1,635,698
Increase (Decrease) in Net Position	1,146,827	2,722,883	(1,576,056)
Net Position at Beginning of Year	(4,674,757)	(7,397,640)	2,722,883
Net Position at End of Year	\$ (3,527,930)	\$ (4,674,757)	\$ 1,146,827

Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The previously discussed changes in NPL and NOL, substantially increased nearly all expenses compared to fiscal year 2018. Other than from this impact fluctuations in revenues and expenses can occur based on the changing needs and service requests of member districts.

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

Table 3
Governmental Activities

	Total Cost of Service		Net Cost of Service	
	2019	2018	2019	2018
Instruction:				
Regular	\$ 252,622	\$ (16,618)	\$ (16,443)	\$ (389,282)
Special	699,890	252,960	(39,039)	(481,452)
Vocational	155,058	38,202	(8,649)	(112,978)
Adult/Continuing	3,584	390	3,584	390
Student Intervention Services	16,190	23,392	(903)	1,509
Other	2,987	(17,862)	(167)	(18,742)
Support Services:				
Pupils	848,685	608,468	(42,382)	(193,857)
Instructional Staff	507,520	222,097	(90,046)	(483,988)
Board of Governors	20,622	24,801	(1,150)	1,600
Administration	325,186	155,733	(17,376)	(155,633)
Fiscal	317,409	266,712	(17,705)	(9,149)
Business	69,002	87,560	2,123	11,335
Operation and Maintenance of Plant	8,254	7,565	(460)	514
Pupil Transportation	444,936	420,259	(5,603)	(11,980)
Central	572,921	541,755	(31,147)	(21,979)
Operation of Non-Instructional Services				
Community Services	9,492	6,356	(2,268)	226
Extracurricular Activities	18,338	15,228	(1,023)	(1,043)
<i>Total Expenses</i>	\$ 4,272,696	\$ 2,636,998	\$ (268,654)	\$ (1,864,509)

For all governmental activities, program receipts support 100 percent of the current year expenses.

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

Governmental Funds

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting.

Educational Service Center of Medina County
Medina County, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

The governmental fund's net change in fund balance for fiscal year 2019 was an increase of \$298,156.

The most significant change within the Educational Service Center was reported in the general fund with an increase in fund balance of \$298,708 as revenues continue to outpace expenditures.

Capital Assets

At the end of fiscal year 2019, the Educational Service Center had \$169,764 invested in capital assets, net of depreciation. Table 4 shows fiscal year 2019 balances compared with 2018.

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

	Governmental Activities	
	2019	2018
Furniture, Fixtures and Equipment	\$ 63,083	\$ 27,164
Vehicles	106,681	100,475
<i>Totals</i>	\$ 169,764	\$ 127,639

The increase in capital assets was attributable to purchases exceeding depreciation expense. See Note 8 for more information about the capital assets of the Educational Service Center.

Current Issues

The Educational Service Center of Medina County is financially stable and continues to offer a wide variety of services to school districts in Medina County and beyond. The Educational Service Center strives to be the leader in providing services and products that promote excellence in education. Through on-going communication with our client districts, the educational service center is constantly evaluating avenues to be of further service to our clients. The environment in which educational service centers operate remains challenging and fortunes can change quickly but, the Educational Service Center of Medina County believes it is well positioned to continue to provide cost effective services to our client districts far into the future.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Treasurer at Educational Service Center of Medina County, 124 W. Washington St., Medina, Ohio 44256 or call 330-723-6393.

BASIC FINANCIAL STATEMENTS

Educational Service Center of Medina County
Medina County, Ohio
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Equity in Pooled Cash and Investments	\$ 4,100,197
Receivables:	
Accounts	97,173
Net OPEB Asset	207,253
Depreciable Capital Assets (Net)	169,764
<i>Total Assets</i>	4,574,387
Deferred Outflows of Resources	
Pension	1,489,315
OPEB	146,877
<i>Total Deferred Outflows of Resources</i>	1,636,192
Liabilities	
Accounts Payable	4,299
Accrued Wages and Benefits	169,057
Intergovernmental Payable	58,603
Unearned Revenue	161,648
Long Term Liabilities:	
Due Within One Year	50,692
Due In More Than One Year:	
Net Pension Liability	5,904,337
Net OPEB Liability	1,494,632
Other Amounts Due in More Than One Year	76,429
<i>Total Liabilities</i>	7,919,697
Deferred Inflows of Resources	
Pension	1,229,317
OPEB	589,495
<i>Total Deferred Inflows of Resources</i>	1,818,812
Net Position	
Investment in Capital Assets	169,764
Restricted For:	
Other Purposes	185,587
Unrestricted	(3,883,281)
<i>Total Net Position</i>	\$ (3,527,930)

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2019

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 252,622	\$ 254,698	\$ 14,367	\$ 16,443
Special	699,890	738,929	0	39,039
Vocational	155,058	163,707	0	8,649
Adult/Continuing	3,584	0	0	(3,584)
Student Intervention Services	16,190	17,093	0	903
Other	2,987	3,154	0	167
Support Services:				
Pupils	848,685	891,067	0	42,382
Instructional Staff	507,520	597,566	0	90,046
Board of Governors	20,622	21,772	0	1,150
Administration	325,186	342,562	0	17,376
Fiscal	317,409	335,114	0	17,705
Business	69,002	66,879	0	(2,123)
Operation and Maintenance of Plant	8,254	8,714	0	460
Pupil Transportation	444,936	345,673	104,866	5,603
Central	572,921	602,268	1,800	31,147
Operation of Non-Instructional Services				
Community Services	9,492	6,027	5,733	2,268
Extracurricular Activities	18,338	19,361	0	1,023
Total	\$ 4,272,696	\$ 4,414,584	\$ 126,766	268,654
General Revenues				
				769,622
Grants and Entitlements Not Restricted to Specific Programs				75,221
Investment Earnings				33,330
Miscellaneous				<u>878,173</u>
<i>Total General Revenues</i>				<u>878,173</u>
<i>Change in Net Position</i>				1,146,827
<i>Net Position Beginning of Year</i>				<u>(4,674,757)</u>
<i>Net Position End of Year</i>				<u>\$ (3,527,930)</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Balance Sheet
Governmental Funds
June 30, 2019

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Investments	\$ 3,878,594	\$ 221,603	\$ 4,100,197
Receivables:			
Accounts	93,299	3,874	97,173
Interfund	25,000	0	25,000
<i>Total Assets</i>	<u>\$ 3,996,893</u>	<u>\$ 225,477</u>	<u>\$ 4,222,370</u>
Liabilities			
Accounts Payable	\$ 3,688	\$ 611	\$ 4,299
Accrued Wages and Benefits	164,480	4,577	169,057
Intergovernmental Payable	57,896	707	58,603
Interfund Payable	0	25,000	25,000
Unearned Revenue	161,648	0	161,648
<i>Total Liabilities</i>	<u>387,712</u>	<u>30,895</u>	<u>418,607</u>
Deferred Inflows of Resources			
Unavailable Revenue	2,677	2,354	5,031
Fund Balances			
Nonspendable	2,519	0	2,519
Restricted	0	187,214	187,214
Committed	0	8,603	8,603
Assigned	417,404	1,988	419,392
Unassigned	3,186,581	(5,577)	3,181,004
<i>Total Fund Balances</i>	<u>3,606,504</u>	<u>192,228</u>	<u>3,798,732</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$ 3,996,893</u>	<u>\$ 225,477</u>	<u>\$ 4,222,370</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2019

Total Governmental Fund Balances		\$ 3,798,732
 <i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		169,764
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Tuition		5,031
 The net pension and OPEB asset/liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the funds.		
Net OPEB Asset	\$ 207,253	
Deferred Outflows - Pension	1,489,315	
Deferred Inflows - Pension	(1,229,317)	
Deferred Outflows - OPEB	146,877	
Deferred Inflows - OPEB	(589,495)	
Net Pension Liability-OPEB	(1,494,632)	
Net Pension Liability-Pension	<u>(5,904,337)</u>	(7,374,336)
 Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences		<u>(127,121)</u>
 <i>Net Position of Governmental Activities</i>		 <u><u>\$ (3,527,930)</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$ 769,067	\$ 106,666	\$ 875,733
Investment Income	75,221	0	75,221
Tuition and Fees	443,455	0	443,455
Customer Sales and Services	3,882,823	86,660	3,969,483
Gifts and Donations	555	20,100	20,655
Miscellaneous	30,045	5,000	35,045
<i>Total Revenues</i>	<u>5,201,166</u>	<u>218,426</u>	<u>5,419,592</u>
Expenditures			
Current:			
Instruction:			
Regular	376,068	11,380	387,448
Special	910,116	0	910,116
Vocational	199,618	0	199,618
Student Intervention Services	30,146	0	30,146
Other	3,458	0	3,458
Support Services:			
Pupils	944,801	5,577	950,378
Instructional Staff	724,510	0	724,510
Board of Governors	20,622	0	20,622
Administration	396,296	0	396,296
Fiscal	331,372	0	331,372
Business	64,202	0	64,202
Operation and Maintenance of Plant	8,230	0	8,230
Pupil Transportation	259,297	195,680	454,977
Central	602,697	1,800	604,497
Extracurricular Activities	25,316	0	25,316
Operation of Non-Instructional Services	0		
Community Services	5,709	4,541	10,250
<i>Total Expenditures</i>	<u>4,902,458</u>	<u>218,978</u>	<u>5,121,436</u>
<i>Net Change in Fund Balance</i>	298,708	(552)	298,156
<i>Fund Balances Beginning of Year</i>	<u>3,307,796</u>	<u>192,780</u>	<u>3,500,576</u>
<i>Fund Balances End of Year</i>	<u>\$ 3,606,504</u>	<u>\$ 192,228</u>	<u>\$ 3,798,732</u>

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2019*

Net Change in Fund Balances - Total Governmental Funds	\$	298,156
 <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.		
Capital Asset Additions	\$ 88,179	
Current Year Depreciation	<u>(46,054)</u>	42,125
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tuition		(69)
 Contractually required pension contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.		
Pension	466,033	
OPEB	<u>39,946</u>	505,979
 Except for amount reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities.		
Pension	(100,932)	
OPEB	<u>391,344</u>	290,412
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Compensated Absences		<u>10,224</u>
 <i>Change in Net Position of Governmental Activities</i>	 \$	 <u><u>1,146,827</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Investments	\$ 120,123	\$ 17,862
Liabilities		
Accounts Payable	2,900	\$ 0
Undistributed Monies	0	17,862
<i>Total Liabilities</i>	2,900	\$ 17,862
Net Position		
Held in Trust for Scholarships	\$ 117,223	

See accompanying notes to the basic financial statements.

Educational Service Center of Medina County
Medina County, Ohio
Statement of Changes in Fiduciary Net Position
Private Purpose Trust Fund
For the Fiscal Year Ended June 30, 2019

	Private Purpose Trust
Additions	
Gifts and Contributions	\$ 1,445
Investment Earnings	2,822
<i>Total Additions</i>	4,267
 Deductions	
Payments in Accordance with Trust Agreements	5,650
<i>Change in Net Position</i>	(1,383)
<i>Net Position Beginning of Year</i>	118,606
<i>Net Position End of Year</i>	\$ 117,223

See accompanying notes to the basic financial statements.

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Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Note 1 – Nature of Basic Operations and Description of the Entity

The Educational Service Center of Medina County (the Educational Service Center) and its Governing Board were established in 1914. The first regular meeting of the Governing Board was July 18, 1914. On June 20, 1989, the Educational Service Center was chartered by the State Board of Education. The Educational Service Center supplies supervisory, administrative, technological and other needed services to all the school districts in Medina County.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies.

Reporting Entity

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

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

The Educational Service Center is associated with the Northeast Ohio Network for Educational Technology (NEOnet) which is defined as a Jointly Governed Organization, the Northcoast Shared Services Alliance, a Jointly Governed Organization with the Educational Service Center and Cuyahoga County and the Educational Service Center of Lorain County for substitute services, Connect, a Jointly Governed Organization with the Educational Service Center and Cuyahoga County and the Educational Service Center of Lorain County for technology support, the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program which is defined as an Insurance Purchasing Pool, and the Stark County Schools Council of Governments which is defined as a Risk Sharing Pool. Each of these is presented in Note 7 to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

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

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Following are the most significant of the Educational Service Center's accounting policies.

Basis of Presentation

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

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

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

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

Fund Accounting

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

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

**Educational Service Center of Medina County
Medina County, Ohio**

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019*

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

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

Fiduciary Funds Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has one private purpose trust fund which is used to account for scholarships. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for donations to the County court system and resources held on behalf of member districts.

Measurement Focus

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

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

The private purpose trust fund is reported using the economic resources measurement focus and is excluded from the governmental activities. All assets and liabilities associated with the operation of this fund are included on the statement of fiduciary net position. The statement of changes in fiduciary net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. Agency funds do not report a measurement focus as they do not report operations.

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Basis of Accounting

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

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

Non-exchange 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 fiscal year when use is first permitted, matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources include pension, OPEB and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities. Deferred inflows of

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 10 and 11).

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

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

Budgetary Data

Although not legally required, the Educational Service Center adopts a budget for all funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center is not required to file budgetary information with the Ohio Department of Education. Even though the budgetary process for the Educational Service Center is discretionary, the Educational Service Center continues to have its Board approve appropriations and estimated revenues. The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board. Throughout the year, estimated resources and appropriations may be amended or supplemented as circumstances warrant.

Cash and Investments

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

During fiscal year 2019, investments were limited to STAR Ohio, (the State Treasurer's Investment Pool). Except for investment contracts that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair market value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

During the year 2019, the Educational Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Board (GASB), Statement No. 79, *Certain External Investment Pools and Pool Participants*. The Educational Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2019 amounted to \$75,221 which includes \$6,489 assigned from other Educational Service Center funds. Investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as "Equity in Pooled Cash and Investments." Investments with an original maturity of more than three months are reported as "Investments."

Capital Assets

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

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

All reported capital assets, except land and construction in progress (when applicable), 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>Governmental Activities Estimated Lives</u>
Furniture, Fixtures and Equipment	5 - 10 Years
Vehicles	5 Years

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Interfund Balances

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

Compensated Absences

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

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

For governmental funds, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirement. These amounts are reported in the account "Matured Compensated Absences Payable" in the funds from which the employees will be paid.

Pensions and Other Postemployment Benefits (OPEB)

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

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are normally expected to be paid with expendable available financial resources. Bonds are recognized as a liability on the fund financial statements when due.

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Interfund Activity

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

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. 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. At June 30, 2019, there was no net position restricted by enabling legislation.

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

Fund Balance

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

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

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

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

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Educational Service Center Governing Board. The Educational Service Center Governing Board has, by resolution, authorized the Treasurer to assign fund balance. The Educational Service Center Governing Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget.

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

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

Estimates

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

Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

GASB Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 88 establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings and direct placements. These changes were incorporated in the Educational Service Center's fiscal year 2019 financial statements; however, there was no effect on beginning net position/fund balance.

Educational Service Center of Medina County
Medina County, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 3 – Fund Balance

Fund balance can be classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented as follows:

	General Fund	Other Governmental Funds	Total
Nonspendable for:			
Unclaimed Monies	\$ 2,519	\$ 0	\$ 2,519
Restricted for:			
Training	0	164,350	164,350
Other Purposes	0	22,864	22,864
Total Restricted	0	187,214	187,214
Committed to:			
Capital Projects	0	8,603	8,603
Assigned for:			
Encumbrances:			
Instruction	1,518	0	1,518
Support Services	22,548	0	22,548
Service Program Fees	393,338	0	393,338
Capital Projects	0	1,988	1,988
Total Assigned	417,404	1,988	419,392
Unassigned	3,186,581	(5,577) *	3,181,004
Total Fund Balance (Deficit)	\$ 3,606,504	\$ 192,228	\$ 3,798,732

* The miscellaneous state grants fund had an unassigned deficit fund balance of \$5,577.

Note 4 - 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 withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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

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

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, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

Interim monies are to 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 market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and 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 these divisions are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptances and commercial paper notes in an amount not to exceed 40 percent of the interim monies available for investment at any one time and for a period not to exceed one hundred eighty days and two hundred seventy days, respectively; and,

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8. Under limited circumstances, corporate debt interests rated in either of the two highest 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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits - At year-end, \$666,994 of the Educational Service Center's bank balance of \$1,117,613 was exposed to custodial credit risk. Although the securities were held by the pledging financial institutions' trust department in the Educational Service Center's name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

Custodial Credit Risk Custodial credit risk for deposits is the risk that in the event of a bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in possession of an outside party.

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

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

Investments

As of June 30, 2019, the Educational Service Center had the following investment:

<u>Rating</u>	<u>Investment</u>	<u>Measurement Amount</u>	<u>Investment Maturity in months 0 - 12</u>
AAAm	Net Asset Value (NAV): STAR Ohio	<u>\$ 3,225,516</u>	<u>\$ 3,225,516</u>

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Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Educational Service Center's policy indicates that the investments must mature within five years, unless matched to a specific obligation or debt of the Educational Service Center.

Credit Risk: STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2019, is 53 days.

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

Note 5 - Receivables

Receivables at June 30, 2019 consisted of accounts (charges for services, tuition and fees) and interfund receivable. All receivables are considered collectible within one year and in full.

Note 6 – State Funding

The Educational Service Center is funded through a combination of State and local funds. The bulk of State funding comes through the Ohio Department of Education to provide general support to all educational service centers based upon a single line-item amount provided to educational service centers as part of the State's biennium budget. That general support amount provided to educational service centers equaled \$24.00 per student for fiscal year 2019 with an additional \$2.00 per available if the educational service center was recognized as a "high performing educational service center." During fiscal year 2019, the Educational Service Center of Medina County applied for and was granted the "high performing educational service center" designation and was therefore funded at \$26.00 per student for the fiscal year. The total amount of this (general support) funding is based upon the ADM (Average Daily Membership) of the school districts aligned with the Educational Service Center multiplied by the per student dollar figure.

The Ohio Department of Education also withholds \$6.50 per ADM from Educational Service Centers aligned with the Educational Service Center and remits those amounts to the Educational Service Center over the course of the fiscal year.

The Educational Service Center also receives an annual amount of funding (distributed monthly) from the Ohio Department of Education to support a regional bus driver training program. The Educational Service Center of Medina County is one of eight regional sponsors of the state-wide bus driver training program.

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The Educational Service Center also receives unit funding from the Ohio Department of Education that partially funds Gifted and Talented Coordinators who are employed by the Educational Service Center and provide services to contracting school districts.

State funding is subject to changes (which could be substantial) with each biennium State budget.

Note 7 – Jointly Governed Organizations and Public Entity Risk Pools

Jointly Governed Organizations

Northeast Ohio Network for Educational Technology

The Northeast Ohio Network for Educational Technology (NEOnet) is a consortium of school districts, including educational service centers which have voluntarily formed in order to provide for the schools' common needs. NEOnet is 1 of 23 sites in the Ohio Education Computer Network providing computer services to schools in their respective geographic areas. NEOnet serves school districts and educational service centers primarily in Summit, Medina and Portage Counties. The governance of NEOnet is controlled by an Assembly, Board of Directors and several subcommittees. The Agreement explains the role of each group and the methods used to make decisions. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designating management. All the consortium revenues are generated from charges for services and State funding.

North Coast Shared Services Alliance (NCSSA)

NCSSA is a jointly governed organization among the Service Center, the Educational Service Center of Northeast Ohio (formally the Educational Service Center of Cuyahoga County), the Educational Service Center of Lorain County, and a private sector substitute provider, Rachel Wixey and Associates. The jointly governed organization was formed for the purpose of providing substitute management and human resources services to school districts throughout the region. Each of the educational service centers supports NCSSA based on services provided to the school districts. The degree of control exercised by any participating educational service center is limited to the contractually agreed upon duties with regard to substitute services. The Educational Service Center of Northeast Ohio serves as the fiscal agent.

Connect

As of April 1, 2016, the Educational Service Centers of Medina, Cuyahoga and Lorain Counties along with the Ohio Schools Council assumed ownership of the Information Technology Center (ITC) formally known as North Coast Council (NCC). Per the Owner-Member Agreement, ninety-five percent of the ownership of the organization is allocated among the three educational service centers based upon the proportion of students in each of the three counties that are served by Connect. The purpose of the organization is to maintain and expand technology and support services to member organizations. Further information may be obtained by contacting the Director of Connect at 5700 West Canal Road, Valley View, Ohio, 44125.

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Insurance Purchasing Pool

The Educational Service Center participates in a group rating plan for workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program (WCGRP) was established as an insurance purchasing pool.

The WCGRP'S business and affairs are conducted by a nine member Board of Directors of the Ohio Schools Council (OSC) consisting of a Chairman, Vice Chairman, Past Chairman as well as 6 Directors. The Chairman of the OSC, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the WCGRP to cover the costs of administering the program.

Risk Sharing Pool

The Stark County Schools Council of Governments (the Council) is a risk sharing pool created pursuant to State statute for the purpose of carrying out a cooperative program for the provision and administration of health care benefits. The Assembly is the legislative decision-making body of the Council. The Assembly is comprised of the superintendents or executive officers of the members, who have been appointed by the respective governing body of each member.

The intent of the insurance pool is to achieve a reduced, stable and competitive rate for the Educational Service Center by the grouping with other members of the Health Benefits Program. The experience of all participating districts is calculated as one and a common premium rate is applied to all member districts. New members must maintain a reserve amount equal to 30 percent of claims paid for the preceding 12 month period.

Note 8 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Balance 7/1/18	Additions	Deletions	Balance 6/30/19
Governmental Activities				
<i>Capital Assets, being depreciated:</i>				
Furniture, Fixtures and Equipment	\$ 200,584	\$ 45,822	\$ (7,844)	\$ 238,562
Vehicles	253,169	42,357	(22,491)	273,035
Total Capital Assets, being depreciated	<u>453,753</u>	<u>88,179</u>	<u>(30,335)</u>	<u>511,597</u>
Less Accumulated Depreciation:				
Furniture, Fixtures and Equipment	(173,420)	(9,903)	7,844	(175,479)
Vehicles	(152,694)	(36,151)	22,491	(166,354)
Total Accumulated Depreciation	<u>(326,114)</u>	<u>(46,054)</u>	<u>30,335</u>	<u>(341,833)</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 127,639</u>	<u>\$ 42,125</u>	<u>\$ 0</u>	<u>\$ 169,764</u>

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Depreciation expense was charged as follows:

Governmental Activities:

Instruction:

Adult Education \$ 3,584

Support Services:

Pupil 118

Instructional Staff 9,227

Administration 722

Business 5,656

Pupil Transportation 26,035

Central 672

Community Services 40

Total Depreciation \$ 46,054

Note 9 - Risk Management

Property and Liability

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Educational Service Center contracted with Liberty Mutual Insurance Company for a Commercial Package Policy starting September 1, 2018, through August 31, 2019. The policy covers all furniture and equipment that has a value equal or greater than \$500. In addition, the Commissioners of Medina County provide insurance coverage for the contents of the office space they provide to the Educational Service Center.

Commercial General Liability coverage was provided by the Liberty Mutual Insurance Company starting September 1, 2018, through August 31, 2019. The coverage limit is \$1,000,000 for each occurrence with a \$2,000,000 aggregate limit with no deductible. A school leader's error and omissions policy is also provided by Liberty Mutual Insurance Company with an aggregate limit of \$1,000,000 and a deductible of \$2,500. Vehicles were covered by the Liberty Mutual Insurance Company as well. The policy holds a \$250 deductible for comprehensive and \$500 deductible for collision. The policy includes coverage for hired and non-owned automobiles. Automobile liability has a \$1,000,000 combined single limit of liability. An Umbrella policy provides up to \$5,000,000 in addition coverage limit per occurrence. The Umbrella policy has an aggregate limit of \$5,000,000. Settled claims have not exceeded this commercial coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

For fiscal year 2019, the Educational Service Center participated in the Sheakley Uniservice, Inc's Workers' Compensation Group Rating Program, an insurance purchasing pool (Note 7). The Program is intended to reduce premiums for the participants. The workers' compensation experience history of all group members is compared to an expected losses figure and a group discount rate is calculated. The group discount rate is then applied to the premium owed by the Educational Service Center. Participation in the program is limited to agencies that can meet the selection criteria. Agencies apply for participation each year. The firm of Sheakley Uniservice, Inc. provides administrative, cost control, and actuarial

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services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

Note 10 - Defined Benefit Pension Plans

Net Pension Liability

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

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

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 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 statewide, cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and

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

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

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

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. SERS allocated 0.5 percent of employer contributions to the Health Care Fund for fiscal year 2019.

The Educational Service Center's contractually required contribution to SERS was \$249,749 for fiscal year 2019. Of this amount, \$8,637 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee 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. For the DB Plan, from August 1, 2015–July 1, 2017, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 26 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective August 1, 2017–July 1, 2019, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will continue to be

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phased in through August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60. Retirement eligibility for reduced benefits will be five years of service credit and age 60, or 30 years of service credit regardless of age.

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. Effective July 1, 2017, employer contributions of 9.53 percent are placed in the investment accounts and the remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying one percent of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50 and termination of employment.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, 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 2019 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS was \$216,284 for fiscal year 2019. Of this amount, \$14,711 is reported as an intergovernmental payable.

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

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an independent actuarial valuation as of that date. The Educational Service Center's employer allocation percentage of the net pension liability was based on the employer's share of employer contributions in the pension plan relative to the total employer contributions of all participating employers. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.05357650%	0.01289769%	
Prior Measurement Date	0.05739860%	0.01378820%	
Change in Proportionate Share	<u>-0.00382210%</u>	<u>-0.00089051%</u>	
Proportionate Share of the Net			
Pension Liability	\$ 3,068,425	\$ 2,835,912	\$ 5,904,337
Pension Expense	\$ 130,215	\$ (29,283)	\$ 100,932

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

At June 30, 2019 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	\$ 168,285	\$ 65,459	\$ 233,744
Changes of Assumptions	69,293	502,577	571,870
Changes in Proportion and Differences between			
Educational Service Center Contributions and			
Proportionate			
Share of Contributions	109,991	107,677	217,668
Educational Service Center Contributions			
Subsequent to the			
Measurement Date	249,749	216,284	466,033
Total Deferred Outflows of Resources	<u>\$ 597,318</u>	<u>\$ 891,997</u>	<u>\$ 1,489,315</u>

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	SERS	STRS	Total
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 18,521	\$ 18,521
Net Difference between Projected and Actual Earnings on Pension Plan Investments	85,017	171,966	256,983
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	163,526	790,287	953,813
Total Deferred Inflows of Resources	<u>\$ 248,543</u>	<u>\$ 980,774</u>	<u>\$ 1,229,317</u>

\$466,033 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 fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2020	\$ 165,937	\$ (54,711)	\$ 111,226
2021	59,859	(181,882)	(122,023)
2022	(100,697)	2,561	(98,136)
2023	(26,073)	(71,029)	(97,102)
	<u>\$ 99,026</u>	<u>\$ (305,061)</u>	<u>\$ (206,035)</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 terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

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Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)
COLA or Ad Hoc COLA	2.50 percent, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement

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

The long-term return expectation for the Pension Plan Investments has been determined by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The asset allocation, as used in the June 30, 2015 five-year experience study, is summarized as follows:

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

Discount Rate 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 that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26-year amortization period of the unfunded actuarial accrued liability. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Educational Service Center of Medina County
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For the Fiscal Year Ended June 30, 2019*

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 Educational Service Center's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Educational Service Center'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	Current Discount Rate	1% Increase
Educational Service Center's Proportionate Share of the Net Pension Liability	\$ 4,322,109	\$ 3,068,425	\$ 2,017,296

Actuarial Assumptions - STRS

The total pension liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using mortality improvement scale MP-2016; pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

The actuarial assumptions used in the July 1, 2018 valuation, were adopted by the board from the results of an actuarial experience study for July 1, 2011, through June 30, 2016.

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

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

Discount Rate The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that employer and member contributions will be made at statutory contribution rates of 14 percent each. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2018.

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 as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current assumption:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Educational Service Center's Proportionate Share of the Net Pension Liability	\$ 4,141,477	\$ 2,835,912	\$ 1,730,929

Note 11 - Defined Benefit OPEB Plans

Net OPEB Asset/Liability

The net OPEB asset/liability reported on the statement of net position represents an asset or liability to employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee

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Notes to the Basic Financial Statements

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services each financial period. The obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Educational Service Center of Medina County

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For the Fiscal Year Ended June 30, 2019

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2.0 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 2019, the Educational Service Center's surcharge obligation was \$30,696.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$39,946 for fiscal year 2019. Of this amount \$31,016 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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For the Fiscal Year Ended June 30, 2019

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

The net OPEB asset/liability was measured as of June 30, 2018, and the total OPEB asset/liability used to calculate the net OPEB asset/liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net OPEB asset/liability was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.05387480%	0.01289769%	
Prior Measurement Date	<u>0.05777530%</u>	<u>0.01378820%</u>	
Change in Proportionate Share	<u>-0.00390050%</u>	<u>-0.00089051%</u>	
Proportionate Share of the Net			
OPEB Liability/(Asset)	\$ 1,494,632	\$ (207,253)	\$ 1,287,379
OPEB Expense	\$ 60,905	\$ (452,249)	\$ (391,344)

At June 30, 2019, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ 24,397	\$ 24,208	\$ 48,605
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	45,497	12,829	58,326
Educational Service Center Contributions Subsequent to the Measurement Date	<u>39,946</u>	<u>0</u>	<u>39,946</u>
Total Deferred Outflows of Resources	<u>\$ 109,840</u>	<u>\$ 37,037</u>	<u>\$ 146,877</u>
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 0	\$ 12,075	\$ 12,075
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	2,242	23,678	25,920
Changes of Assumptions	134,280	282,399	416,679
Changes in Proportion and Differences between Educational Service Center Contributions and Proportionate Share of Contributions	<u>103,087</u>	<u>31,734</u>	<u>134,821</u>
Total Deferred Inflows of Resources	<u>\$ 239,609</u>	<u>\$ 349,886</u>	<u>\$ 589,495</u>

\$39,946 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2020	\$ (47,856)	\$ (55,350)	\$ (103,206)
2021	(42,127)	(55,350)	(97,477)
2022	(23,992)	(55,351)	(79,343)
2023	(23,038)	(49,975)	(73,013)
2024	(23,194)	(48,085)	(71,279)
Thereafter	(9,508)	(48,738)	(58,246)
	<u>\$ (169,715)</u>	<u>\$ (312,849)</u>	<u>\$ (482,564)</u>

Actuarial Assumptions - SERS

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018. The actuarial assumptions used in the valuation are based on results from the most recent actuarial experience study, which covered the five-year period ending June 30, 2015. The experience study report is dated April 2016. The total OPEB liability used the following assumptions and other inputs:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate	
Measurement Date	3.70 percent, net of plan investment expense, including price inflation
Prior Measurement Date	3.63 percent, net of plan investment expense, including price inflation
Health Care Cost Trend Rate	
Medicare	5.375 percent - 4.75 percent
Pre-Medicare	7.25 percent - 4.75 percent

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

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

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019*

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

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 2.00 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e., municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability and what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what the net OPEB liability would be based on health care cost trend rates that are one percent lower (6.25 percent decreasing to 3.75 percent) and one percent higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Educational Service Center's Proportionate Share of the Net OPEB Liability	\$ 1,813,619	\$ 1,494,632	\$ 1,242,055
		Current Trend Rate	
	1% Decrease	1% Increase	
Educational Service Center's Proportionate Share of the Net OPEB Liability	\$ 1,205,894	\$ 1,876,974	

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Actuarial Assumptions – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

Inflation	2.50 percent
Projected Salary Increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3.00 percent
Health Care Cost Trend Rates	-5.23 percent to 9.62 percent, initial, 4.00 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

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

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For the Fiscal Year Ended June 30, 2019

Discount Rate The discount rate used to measure the total OPEB asset/liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected benefit payments to determine the total OPEB liability as of June 30, 2018.

Sensitivity of the Educational Service Center’s Proportionate Share of the Net OPEB Asset/Liability to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset/liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset/liability would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB liability as of June 30, 2018, calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Educational Service Center’s Proportionate Share of the Net OPEB Liability/(Asset)	\$ (177,635)	\$ (207,253)	\$ (232,145)

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Educational Service Center’s Proportionate Share of the Net OPEB Liability/(Asset)	\$ (230,740)	\$ (207,253)	\$ (183,400)

Note 12 - Employee Benefits

Compensated Absences

Two hundred and sixty/sixty-one day certified and classified employees earn five to twenty days of vacation per year, depending upon their length of service. Employees may carry a maximum of five vacation days over into the next year. Employees are given access to all vacation days they are eligible for at the beginning of each year but they earn the time allotted over the course of the year. Upon separation, a calculation is performed to determine the amount of vacation time that has been earned that year. Any time that has been earned and is unused plus any time that was carried over from the prior year that has not been used is paid out to the employee upon separation. The maximum amount of vacation time that could be paid out is twenty-five days.

Administrators, supervisors, certified and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one fourth of the total sick leave accumulation, up to a maximum of 60 days.

Life Insurance

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

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

Note 13 - Long - Term Obligations

The changes in the Educational Service Center's long-term obligations during the fiscal year consist of the following:

	Balance 7/1/18	Additions	Reductions	Balance 6/30/19	Amounts Due in One Year
Governmental Activities:					
Net Pension Liability	\$ 6,704,856	\$ 0	\$ 800,519	\$ 5,904,337	\$ 0
Net OPEB Liability	2,088,502	0	593,870	1,494,632	0
Compensated Absences	<u>137,345</u>	<u>54,750</u>	<u>64,974</u>	<u>127,121</u>	<u>50,692</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 8,930,703</u>	<u>\$ 54,750</u>	<u>\$1,459,363</u>	<u>\$ 7,526,090</u>	<u>\$ 50,692</u>

Compensated absences will be paid from the general fund. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the general fund. For additional information related to the net pension liability and net OPEB liability, see Notes 10 and 11.

Note 14 – Contingencies

Grants

The Educational Service Center received financial assistance from Federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2019, if applicable, cannot be determined at this time.

Litigation

The Educational Service Center is not party to any claims or lawsuits that would, in the Educational Service Center's opinion, have a material effect of the basic financial statements.

Educational Service Center Funding

School district Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, all ODE adjustments for fiscal year 2019 have been made.

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 15 – Interfund Balances

General fund advanced \$25,000 to the miscellaneous state grants fund to cover expenditures until expected revenues were received. These advances are expected to be repaid within one year.

Interfund loans between governmental activities are eliminated on the statement of net position.

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Educational Service Center of Medina County
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Required Supplementary Information
Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability
Last Six Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<i>School Employees Retirement System (SERS)</i>						
Educational Service Center's Proportion of the Net Pension Liability	0.05357650%	0.05739860%	0.05338760%	0.05622230%	0.05882600%	0.05882600%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$ 3,068,425	\$ 3,429,440	\$ 3,907,480	\$ 3,208,099	\$ 2,977,150	\$ 3,498,193
Educational Service Center's Covered Payroll	\$ 1,788,244	\$ 1,842,157	\$ 1,431,943	\$ 1,672,018	\$ 1,757,850	\$ 1,693,598
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	171.59%	186.16%	272.88%	191.87%	169.36%	206.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%	71.70%	65.52%
<i>State Teachers Retirement System (STRS)</i>						
Educational Service Center's Proportion of the Net Pension Liability	0.01289769%	0.01378820%	0.01345236%	0.01932623%	0.01849580%	0.01849580%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$ 2,835,912	\$ 3,275,416	\$ 4,502,910	\$ 5,341,205	\$ 4,498,819	\$ 5,358,963
Educational Service Center's Covered Payroll	\$ 1,439,921	\$ 1,540,536	\$ 1,649,443	\$ 2,011,900	\$ 1,905,138	\$ 2,056,254
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	196.95%	212.62%	273.00%	265.48%	236.14%	260.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.31%	75.30%	66.80%	72.10%	74.70%	69.30%

(1) Information prior to 2014 is not available.

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution	\$ 249,749	\$ 241,413	\$ 257,902	\$ 200,472
Contributions in Relation to the Contractually Required Contribution	<u>(249,749)</u>	<u>(241,413)</u>	<u>(257,902)</u>	<u>(200,472)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Educational Service Center's Covered Payroll	\$ 1,849,993	\$ 1,788,244	\$ 1,842,157	\$ 1,431,943
Pension Contributions as a Percentage of Covered Payroll	13.50%	13.50%	14.00%	14.00%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 216,284	\$ 201,589	\$ 215,675	\$ 230,922
Contributions in Relation to the Contractually Required Contribution	<u>(216,284)</u>	<u>(201,589)</u>	<u>(215,675)</u>	<u>(230,922)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Educational Service Center's Covered Payroll	\$ 1,544,886	\$ 1,439,921	\$ 1,540,536	\$ 1,649,443
Pension Contributions as a Percentage of Covered Payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 220,372	\$ 243,638	\$ 234,394	\$ 226,917	\$ 228,677	\$ 243,720
<u>(220,372)</u>	<u>(243,638)</u>	<u>(234,394)</u>	<u>(226,917)</u>	<u>(228,677)</u>	<u>(243,720)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,672,018	\$ 1,757,850	\$ 1,693,598	\$ 1,687,115	\$ 1,819,228	\$ 1,800,000
13.18%	13.86%	13.84%	13.45%	12.57%	13.54%
\$ 281,666	\$ 247,668	\$ 267,313	\$ 258,226	\$ 334,399	\$ 194,973
<u>(281,666)</u>	<u>(247,668)</u>	<u>(267,313)</u>	<u>(258,226)</u>	<u>(334,399)</u>	<u>(194,973)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 2,011,900	\$ 1,905,138	\$ 2,056,254	\$ 1,986,354	\$ 2,572,300	\$ 1,499,792
14.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<i>School Employees Retirement System (SERS)</i>			
Educational Service Center's Proportion of the Net OPEB Liability	0.05387480%	0.05777530%	0.05442731%
Educational Service Center's Proportionate Share of the Net OPEB Liability	\$ 1,494,632	\$ 1,550,537	\$ 1,551,380
Educational Service Center's Covered Payroll	\$ 1,788,244	\$ 1,842,157	\$ 1,431,943
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	83.58%	84.17%	108.34%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%
<i>State Teachers Retirement System (STRS)</i>			
Educational Service Center's Proportion of the Net OPEB Liability/(Asset)	0.01289769%	0.01378820%	0.01345236%
Educational Service Center's Proportionate Share of the Net OPEB Liability/(Asset)	\$ (207,253)	\$ 537,965	\$ 719,436
Educational Service Center's Covered Payroll	\$ 1,439,921	\$ 1,540,536	\$ 1,649,443
Educational Service Center's Proportionate Share of the Net OPEB Liability/(Asset) as a Percentage of its Covered Payroll	-14.39%	34.92%	43.62%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability/(Asset)	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<i>School Employees Retirement System (SERS)</i>				
Contractually Required Contribution (1)	\$ 39,946	\$ 26,980	\$ 29,310	\$ 28,934
Contributions in Relation to the Contractually Required Contribution	<u>(39,946)</u>	<u>(26,980)</u>	<u>(29,310)</u>	<u>(28,934)</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Educational Service Center's Covered Payroll	\$ 1,849,993	\$ 1,788,244	\$ 1,842,157	\$ 1,431,943
OPEB Contributions as a Percentage of Covered Payroll (1)	2.16%	1.51%	1.59%	2.02%
<i>State Teachers Retirement System (STRS)</i>				
Contractually Required Contribution	\$ 0	\$ 0	\$ 0	\$ 0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Educational Service Center's Covered Payroll	\$ 1,544,886	\$ 1,439,921	\$ 1,540,536	\$ 1,649,443
OPEB Contributions as a Percentage of Covered Payroll	0.00%	0.00%	0.00%	0.00%

(1) Includes surcharge

See accompanying notes to the required supplementary information.

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 42,429	\$ 31,581	\$ 27,601	\$ 35,805	\$ 61,815	\$ 44,080
<u>(42,429)</u>	<u>(31,581)</u>	<u>(27,601)</u>	<u>(35,805)</u>	<u>(61,815)</u>	<u>(44,080)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 1,672,018	\$ 1,757,850	\$ 1,693,598	\$ 1,687,115	\$ 1,819,228	\$ 1,800,000
2.54%	1.80%	1.63%	2.12%	3.40%	2.45%
\$ 0	\$ 19,051	\$ 20,563	\$ 19,864	\$ 25,723	\$ 14,998
<u>0</u>	<u>(19,051)</u>	<u>(20,563)</u>	<u>(19,864)</u>	<u>(25,723)</u>	<u>(14,998)</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 2,011,900	\$ 1,905,138	\$ 2,056,254	\$ 1,986,354	\$ 2,572,300	\$ 1,499,792
0.00%	1.00%	1.00%	1.00%	1.00%	1.00%

Educational Service Center of Medina County

Medina County, Ohio

Notes to the Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

Note 1 - Net Pension Liability

Changes in Assumptions - SERS

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

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

Changes in Benefit Terms - SERS

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

Changes in Assumptions - STRS

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

Changes in Benefit Terms - STRS

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

Note 2 - Net OPEB Asset/Liability

Changes in Assumptions - SERS

Amounts reported for fiscal year 2019 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 3.56 percent to 3.62

**Educational Service Center of Medina County
Medina County, Ohio**

*Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2019*

percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 3.63 percent to 3.70 percent. The health care cost trend assumptions changed as follows:

Pre-Medicare

Fiscal year 2018	7.50 percent initially, decreasing to 4.00 percent
Fiscal year 2019	7.25 percent initially, decreasing to 4.75 percent

Medicare

Fiscal year 2018	5.50 percent initially, decreasing to 5.00 percent
Fiscal year 2019	5.375 percent initially, decreasing to 4.75 percent

Amounts reported for fiscal year 2018 incorporate changes in key methods and assumptions used in calculating the total OPEB liability. The Municipal Bond Index Rate increased from 2.92 percent to 3.56 percent. Single Equivalent Interest Rate, net of plan investment expense, including price inflation, increased from 2.98 percent to 3.63 percent.

Changes in Benefit Terms - SERS

There have been no changes to the benefit provisions.

Changes in Assumptions – STRS

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent. Valuation year per capita health care costs were updated. Health care cost trend rates ranged from 6.00 percent to 11 percent initially and a 4.50 percent ultimate rate for fiscal year 2018 and changed for fiscal year 2019 to a range of -5.20 percent to 9.60 percent, initially and a 4.00 ultimate rate.

For fiscal year 2018, the blended discount rate was increased from 3.26 percent to 4.13 percent. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

Changes in Benefit Terms – STRS

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

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

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OHIO AUDITOR OF STATE KEITH FABER



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

Educational Service Center of Medina County
Medina County
124 West Washington Street
Medina, Ohio 44256

To the Board of Governors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Medina County, Medina County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated November 13, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

November 13, 2020

EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY
MEDINA COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2019

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

None

2. OTHER – FINDINGS FOR RECOVERY

We identified the following other issue related to a Finding for Recovery. This issue did not impact our GAGAS report.

FINDING NUMBER 2019-001

Finding for Recovery Repaid Under Audit

Ohio Rev. Code § 3313.203 indicates the Educational Service Center (ESC) may make expenditures to indemnify, defend, and hold harmless against all civil demands, claims, suites, and legal proceedings whether threatened or instituted, and defend such person against any criminal legal proceedings, whether threatened or instituted that arise from the acts or omissions of such person while acting, within the scope of the person's employment by the Board and in the good faith belief that such conduct was lawful, except in the case of findings for recovery in an audit report pursuant to **Ohio Rev. Code § 117.28**. Additionally, item 14 of the contract between the ESC and the Superintendent for the time period commencing August 1, 2012 and ending July 31, 2017, and approved by the Board on February 27, 2012, indicates the limitations of Ohio Rev. Code § 3313.203 apply.

On April 21, 2015, an agreed-upon procedures report was reissued by the Auditor of State's Office for the Medina City School District for the time period of July 1, 2005 through March 31, 2013. In the report, the ESC's Superintendent, William Koran, and his bonding company were named secondarily liable for a finding for recovery issued under Ohio Rev. Code § 117.28. During fiscal year 2015 and 2016, the Superintendent engaged the ESC's legal counsel in the resolution of the finding for recovery with the Ohio Attorney General's Office and Ohio Department of Education, contrary to Ohio Rev. Code § 3313.203. The amount expended for the resolution of the finding for recovery to the ESC's legal counsel was \$945.

In accordance with the foregoing facts and pursuant to **Ohio Rev. Code § 117.28**, a Finding for Recovery for public money illegally expended is hereby issued against William J. Koran and in favor of the Educational Service Center's General Fund.

On May 18, 2020, William Koran reimbursed the ESC's General Fund \$945 through check #5900.

Officials' Response: We acknowledge the finding and it has been resolved.

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OHIO AUDITOR OF STATE KEITH FABER



EDUCATIONAL SERVICE CENTER OF MEDINA COUNTY

MEDINA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 12/1/2020

88 East Broad Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov