MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY
JUNE 30, 2019

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OHIO AUDITOR OF STATE
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INDEPENDENT AUDITOR'S REPORT

Mercer County Educational Service Center
Mercer County
441 E. Market St.
Celina, Ohio 45822

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mercer County Educational Service Center, Mercer County, Ohio, as of June 30, 2019, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03(B) requires the Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Supplementary Information

Our audit was conducted to opine on the financial statements taken as a whole.

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

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

Other Information

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2020, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

March 24, 2020

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The discussion and analysis of the Mercer County Educational Service Center's ("Service Center") financial performance provides an overall review of the 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 Service Center's performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- General receipts accounted for $373,355 or 7 percent of all receipts. Program specific receipts in the form of charges for services and sales, grants and contributions accounted for $5,245,082 or 93 percent of total receipts of $5,618,437.

- In total, program disbursements were $5,640,840.

- In total, net position decreased $22,403.

Using this Annual Report

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

The *Statement of Net Position* and *Statement of Activities* provide information about the activities of the whole Service Center. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Service Center's most significant funds with all other non-major funds presented in total in one column. For fiscal year 2019, the General Fund and Part B – IDEA Fund are the Service Center's most significant funds.

Basis of Accounting

The Service Center has elected to present its financial statements on the cash basis of accounting. This cash basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions.

Essentially, the only assets reported on this strictly cash receipt and disbursement basis presentation in a statement of net position will be cash and cash equivalents. The statement of activities reports cash receipts and disbursements, or in other words, the sources and uses of cash and cash equivalents. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains the large number of funds used by the Service Center to provide programs and activities, the view of the Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2019?" The statement of net position and the statement of activities answer this question.

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

In the statement of net position and the statement of activities, governmental activities include the Service Center's programs and services, including instruction and support services.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for financial transactions. However, these fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds include the General Fund and the Part B – IDEA Fund.

Governmental Funds - All of the Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting. The governmental fund statements provide a detailed short-term view of the Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or less financial resources that can be spent in the near future to finance educational programs.

Reporting the Service Center's Fiduciary Responsibilities

The Service Center acts in a trustee capacity as an agent for other governmental units. These activities are reported in fiduciary funds. The 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 Service Center's other financial statements because the assets cannot be utilized by the Service Center to finance its operations.

The Service Center as a Whole

Table 1 provides a summary of the Service Center's net position for fiscal year 2019 compared to 2018.

(Table 1)
Net Position – Cash Basis

	Governmental Activities		
	2019	2018	Change
Assets			
Equity in Pooled Cash and Cash Equivalents	$ 1,678,683	$ 1,701,086	$ (22,403)
Net Position			
Restricted for:			
Other Purposes	$ 28,537	$ 26,948	$ 1,589
Unrestricted	1,650,146	1,674,138	(23,992)
Total Net Position	$ 1,678,683	$ 1,701,086	$ (22,403)

A portion of the Service Center's net position represents resources subject to external restrictions on how they may be used. The remaining balance of the government-wide unrestricted net position may be used to meet the Service Center's ongoing obligations.

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Table 2 shows the changes in net position for fiscal year 2019 as compared to fiscal year 2018.

(Table 2)
Changes in Net Position – Cash Basis

	Governmental Activities		
	2019	2018	Change
Receipts			
Program Receipts			
Charges for Services and Sales	$ 4,376,163	$ 4,710,874	$ (334,711)
Operating Grants and Contributions	868,919	972,782	(103,863)
Total Program Receipts	5,245,082	5,683,656	(438,574)
General Receipts			
Grants and Entitlements not Restricted to Specific Programs	304,322	302,457	1,865
Proceeds from Sale of Assets	0	1,376	(1,376)
Investment Earnings	27,819	7,211	20,608
Miscellaneous	41,214	24,611	16,603
Total General Receipts	373,355	335,655	37,700
Total Receipts	5,618,437	6,019,311	(400,874)
Program Disbursements			
Instruction:			
Regular	40,673	362,762	(322,089)
Special	3,340,020	3,222,773	117,247
Support Services:			
Pupils	1,189,191	1,109,384	79,807
Instructional Staff	445,039	535,517	(90,478)
Governing Board	16,926	54,564	(37,638)
Administration	282,973	271,057	11,916
Fiscal	197,781	182,140	15,641
Business	5,040	6,225	(1,185)
Operation and Maintenance of Plant	42,850	47,169	(4,319)
Pupil Transportation	41,533	70,376	(28,843)
Central	38,814	39,257	(443)
Operation of Non-Instructional Services:			
Food Service Operations	0	4,337	(4,337)
Total Program Disbursements	5,640,840	5,905,561	(264,721)
Change in Net Position	(22,403)	113,750	(136,153)
Net Position Beginning of Year	1,701,086	1,587,336	113,750
Net Position End of Year	$ 1,678,683	$ 1,701,086	$ (22,403)

Charges for services and sales and regular instruction had a significant decrease during the fiscal year that can be attributed to the Service Center ceasing operation of their alternative school program after fiscal year 2018.

Governmental Activities

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 tax receipts and unrestricted State entitlements.

(Table 3)
Governmental Activities – Cash Basis

	Total Costs of Services		Net Costs of Services	
	2019	2018	2019	2018
Program Disbursements				
Instruction:				
Regular	$ 40,673	$ 362,762	$ 3,552	$ 17,619
Special	3,340,020	3,222,773	250,621	80,944
Support Services:				
Pupils	1,189,191	1,109,384	82,115	76,164
Instructional Staff	445,039	535,517	36,008	34,169
Governing Board	16,926	54,564	1,369	3,485
Administration	282,973	271,057	22,895	17,311
Fiscal	197,781	182,140	16,003	11,632
Business	5,040	6,225	408	398
Operation and Maintenance of Plant	42,850	47,169	3,467	3,012
Pupil Transportation	41,533	70,376	(23,820)	(25,613)
Central	38,814	39,257	3,140	2,507
Operation of Non-Instructional Services:				
Food Service Operations	0	4,337	0	277
Total	$ 5,640,840	$ 5,905,561	$ 395,758	$ 221,905

The Service Center's Funds

The Service Center's governmental funds are accounted for using the cash basis of accounting.

The Service Center's governmental funds reported a combined fund balance of $1,678,683, which is slightly lower than the prior year balance of $1,701,086.

The General Fund's fund balance decreased $18,913 in fiscal year 2019.

The Part B – IDEA Fund had no change in fund balance during fiscal year 2019.

Current Issues

The Service Center has not anticipated any meaningful growth in State receipts. Another concern is the State Legislative approval of the last three biennial budgets, which have had a negative impact on the Service Center. How the legislature plans to fund education programs during a weakened economy remains a concern. An additional concern lies with the need for services from the Service Center by not only the local districts but the city and exempted village districts. Without all participants, costs may increase to the point some districts could decide to no longer utilize the Service Center. This creates a strong need to maintain low costs along with enhanced services for the district.

All scenarios require management to plan carefully and prudently to provide the resources to meet student needs over the next several years.

In addition, the Service Center's systems of budgeting appropriations and internal controls are well regarded. All of the Service Center's financial abilities will be needed to meet the challenges of the future.

Contacting the Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Kurt Wendel, Treasurer of Mercer County Educational Service Center, 441 E. Market St., Celina, OH 45822 or kurt.wendel@mercercountyesc.org.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Net Position - Cash Basis
June 30, 2019

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	$ 1,678,683
Net Position	
Restricted for:	
Other Purposes	$ 28,537
Unrestricted	1,650,146
Total Net Position	$ 1,678,683

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2019

		Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	$ 40,673	$ 35,321	$ 1,800	$ (3,552)
Special	3,340,020	2,284,280	805,119	(250,621)
Support Services:				
Pupils	1,189,191	1,072,256	34,820	(82,115)
Instructional Staff	445,039	409,031	0	(36,008)
Governing Board	16,926	15,557	0	(1,369)
Administration	282,973	260,078	0	(22,895)
Fiscal	197,781	181,778	0	(16,003)
Business	5,040	4,632	0	(408)
Operation and Maintenance of Plant	42,850	39,383	0	(3,467)
Pupil Transportation	41,533	38,173	27,180	23,820
Central	38,814	35,674	0	(3,140)
Totals	$ 5,640,840	$ 4,376,163	$ 868,919	(395,758)

General Receipts	
Grants and Entitlements not Restricted to Specific Programs	304,322
Investment Earnings	27,819
Miscellaneous	41,214
Total General Receipts	373,355
Change in Net Position	(22,403)
Net Position Beginning of Year	1,701,086
Net Position End of Year	$ 1,678,683

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
June 30, 2019

	General Fund	Part B - IDEA Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$ 1,658,554	$ 0	$ 20,129	$ 1,678,683
Fund Balances				
Nonspendable	2,034	0	0	2,034
Restricted	0	0	26,503	26,503
Committed	100,634	0	402	101,036
Assigned	142,334	0	0	142,334
Unassigned	1,413,552	0	(6,776)	1,406,776
Total Fund Balances	$ 1,658,554	$ 0	$ 20,129	$ 1,678,683

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Receipts, Disbursements and Changes
in Fund Balances - Cash Basis - Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General Fund	Part B - IDEA Fund	Other Governmental Funds	Total Governmental Funds
Receipts				
Intergovernmental	$ 331,502	$ 733,678	$ 108,061	$ 1,173,241
Investment Income	27,819	0	0	27,819
Contracted Services	89,578	0	0	89,578
Tuition and Fees	4,279,420	0	0	4,279,420
Extracurricular Activities	7,165	0	0	7,165
Miscellaneous	41,214	0	0	41,214
Total Receipts	4,776,698	733,678	108,061	5,618,437
Disbursements				
Current:				
Instruction:				
Regular	38,430	0	2,243	40,673
Special	2,499,909	763,344	76,767	3,340,020
Support Services:				
Pupils	1,166,650	0	22,541	1,189,191
Instructional Staff	445,039	0	0	445,039
Governing Board	16,926	0	0	16,926
Administration	282,973	0	0	282,973
Fiscal	197,781	0	0	197,781
Business	5,040	0	0	5,040
Operation and Maintenance of Plant	42,850	0	0	42,850
Pupil Transportation	41,533	0	0	41,533
Central	38,814	0	0	38,814
Total Disbursements	4,775,945	763,344	101,551	5,640,840
Excess of Receipts Over (Under) Disbursements	753	(29,666)	6,510	(22,403)
Other Financing Sources (Uses)				
Advances In	10,513	30,179	0	40,692
Advances Out	(30,179)	(513)	(10,000)	(40,692)
Total Other Financing Sources (Uses)	(19,666)	29,666	(10,000)	0
Net Change in Fund Balances	(18,913)	0	(3,490)	(22,403)
Fund Balances Beginning of Year	1,677,467	0	23,619	1,701,086
Fund Balances End of Year	$ 1,658,554	$ 0	$ 20,129	$ 1,678,683

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Fiduciary Net Position - Cash Basis
Fiduciary Funds
June 30, 2019

	Private Purpose Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	$ 4,989	$ 10,201
Net Position		
Held in Trust for Scholarships	$ 4,989	$ 0
Held on Behalf of Other Governments	0	10,201
Total Net Position	$ 4,989	$ 10,201

See accompanying notes to the basic financial statements.

Mercer County Educational Service Center
Mercer County, Ohio
Statement of Changes in Fiduciary Net Position - Cash Basis
Fiduciary Funds
For the Fiscal Year Ended June 30, 2019

		Private Purpose Trust
Additions		
Gifts/Donations	$	1,695
Deductions		
Payments in Accordance with Trust Agreements		2,905
Change in Net Position		(1,210)
Net Position Beginning of Year		6,199
Net Position End of Year	$	4,989

See accompanying notes to the basic financial statements.

NOTE 1 - DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

The Mercer County Educational Service Center (the "Service Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Service Center is a county district as defined by Ohio Rev. Code Section 3311.05. The Service Center operates under an elected Governing Board (5 members) and provides educational services for handicapped and gifted students and is responsible for the provision of public education to residents of the County.

Management believes the financial statements included in this report represent all of the funds of the Service Center over which the Service Center has the ability to exercise direct operating control.

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

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

The Service Center participates in one jointly governed organization and three insurance purchasing pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Schools of Ohio Risk Sharing Authority, the Sheakley Uniservice, Inc. Workers' Compensation Group Rating Program, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 9 and 10 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.A., these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the Service Center's accounting policies.

A. Basis of Accounting

Although Ohio Administrative Code Sections 117-2-03(B) requires the Service Center's financial report to follow generally accepted accounting principles (GAAP), the Service Center chooses to prepare its financial statements and notes in accordance with the cash accounting basis. The Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred. The Service Center can be fined and various other administrative remedies may be taken against them.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The *Statement of Net Position-Cash Basis* and *Statement of Activities-Cash Basis* display information about the Service Center as a whole. The statements include all funds of the Service Center except for fiduciary funds.

The Statement of Net Position presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

During the year, the Service Center segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. The focus of governmental financial statements is on major funds. Each major fund is presented in a single column. Fiduciary funds are reported by type.

Fund financial statements of the Service Center are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its fund equity, receipts and disbursements. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Service Center or meets the following criteria:

a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and

b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds.

The funds of the financial reporting entity are described below:

<u>Governmental Funds/Governmental Activities</u>

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2019:

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

Part B – IDEA Fund **-** The Part B – IDEA Fund is used to account for the special education services and resources of the Service Center.

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

<u>Fiduciary Fund Types</u>

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include private purpose trust funds and agency funds. The Service Center's private purpose trust fund consists of the Franklin Walter Scholarship Fund. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. The Service Center's agency funds include Employee Section 125 Insurance, the Family and Children's First program and the Superintendent Network. The Service Center acts as both fiscal and administrative agent for all programs.

C. Budgetary Process

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed. However, the Service Center does follow budgetary procedures to assist them in fiscal accountability.

D. Cash and Cash Equivalents

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

During fiscal year 2019, the Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Certain External Investment Pools and Pool Participants. The 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.

For purposes of financial reporting, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months which were not purchased with pooled monies are reported as investments. Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2019 were $27,819, which includes $1,433 assigned from other funds.

E. Restricted Assets

Assets are reported as restricted when limitations on their use changes the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

F. Capital Assets

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements. Depreciation is not recorded on these capital assets.

G. Accumulated Leave

Employees are entitled to cash payments for unused vacation and sick leave in certain circumstances, such as upon leaving employment. Unpaid vacation and sick leave are not reflected as liabilities under the cash basis of accounting used by the Service Center.

H. Long-term Debt

Long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received and debt service disbursements for debt principal payments. The Service Center has no debt.

I. Intergovernmental Receipts

Unrestricted intergovernmental receipts received on the basis of entitlement are recorded as receipts when the entitlement is received. Federal and State reimbursement type grants are recorded as receipts when the grant is received.

J. Inventory and Prepaid Items

The Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

K. Pass-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2019, these funds included the Special Education Grants to States (Part B-IDEA), Special Education Preschool Grant and Title III Grant. The intergovernmental disbursements have been allocated to the programs on the entity-wide statement of activities.

L. Interfund Transactions

During the course of normal operations, the Service Center has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as transfers.

2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

The Service Center reports advance-in and advance-out for interfund loans. These items are not reflected as assets and liabilities on the accompanying financial statements.

M. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

Equity is classified as net position and displayed in separate components:

a. Restricted net position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation. Net position restricted for other purposes include resources restricted for summer programs and federal and state grants restricted to expenditure for specified purposes. The Service Center did not have any assets restricted by enabling legislation.

b. Unrestricted net position – All other net positions that do not meet the definition of “restricted.”

The Service Center’s policy is to first apply restricted resources when a cash disbursement is incurred for purposes for which restricted and unrestricted net position are available.

FUND FINANCIAL STATEMENTS

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

a. Non-spendable - The non-spendable classification 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” includes items that are not expected to be converted to cash.

b. 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.

c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board. The committed amounts cannot be used for any other purpose unless the 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.

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

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

The Service Center first applies restricted resources when a disbursement is 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 disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

O. Receipts and Disbursements

Program Receipts
In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the Service Center are reported as program receipts. The Service Center has the following program receipts: charges for services and sales and operating grants and contributions. All other governmental receipts are reported as general.

Disbursements
Governmental activities include the Service Center's programs and services, including instruction, support services, operation and maintenance of plant (buildings) and pupil transportation.

P. Pensions and Other Postemployment Benefits (OPEB)

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

Q. Implementation of New Accounting Policies

For the fiscal year ended June 30, 2019, the Service Center has (to the extent it applies to the cash basis of accounting) 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 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. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the Service Center.

NOTE 3 –DEPOSITS AND INVESTMENTS

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

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

Inactive deposits are public deposits that the Governing Board 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 including passbook accounts.

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

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

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

2. Bonds, notes debentures or any other obligations or security 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 this division are made only through eligible institutions;

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

7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days and two hundred and seventy days, respectively, from the date of purchase in an amount not to exceed forty percent of the interim monies available for investment at any one time; and

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

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center and must be purchased with the expectation that it will be held to maturity. 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, $152,921 of the Service Center's bank balance of $836,397 was exposed to custodial credit risk. Although the securities were held by the pledging financial institutions' trust department in the Service Center's name and all statutory requirements for the investment of money had been followed, noncompliance with Federal requirements could potentially subject the 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 Service Center will not be able to recover deposits or collateral securities that are in possession of an outside party.

The 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 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 Service Center had the following investment and maturity:

Investment Type	Cost	Investment Maturity 6 Months or Less	Percent of Total
STAR Ohio	$ 1,018,146	$ 1,018,146	100%

Interest Rate Risk.

As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the Service Center's investment policy limits investment portfolio maturities to two years or less for investments with a fixed interest rate, and one year or less for investments with a variable interest rate.

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 and carries a rating of AAAm by S&P Global Ratings.

Concentration of Credit Risk.

The Service Center places no limit on the amount that may be invested in any one issuer.

NOTE 4 - PRIMARY RECEIPT SOURCES

There are two primary sources of operating receipts for the Service Center. The first primary source for Service Center operating dollars comes from the local districts that have contracted with the Service Center for services. These dollars are reported as contracted services and tuition fees. The second source is State foundation distributions. The school district settlement report for foundation payments has three sections: paid by the State, paid by the local school districts and paid under contract by the local school districts.

A. State Foundation Distributions - Amounts Paid by the State

This section has three parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement. The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM of the local districts within the limits of the Service Center's territory times $26.00. The Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997. The third part represents supervisory extended service amounts associated with co-op units which would be recovered by the State from the districts that are parties to the cooperative agreement and reported as charges for services; however, the Service Center did not receive this type of funding during the fiscal year. These are State monies appropriately recorded as unrestricted grants-in-aid and reported as intergovernmental revenue.

B. State Foundation Distributions

1. Amounts Paid by the Local Service Centers

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each Service Center’s per pupil amount is determined by multiplying the average daily membership of the Service Center (the total number of students enrolled) by $6.50. These amounts are withheld by the State from the participating districts. These amounts are all reported as contracted services.

2. Amounts Paid under Contract by Local Service Centers

This section has only one part. It represents amounts due to the Service Center for services provided under contract with participating districts which the Service Center is having the State collect on its behalf. This amount is withheld by the State from the participating districts. These amounts are also reported as contracted services.

NOTE 5 - RISK MANAGEMENT

A. Medical Benefits

The Service Center participates in the Mercer Auglaize Employee Benefit Trust (“Trust”), a public entity shared risk pool consisting of eleven local school districts and two educational service centers. As of January 1, 2019 the Trust became a single member within the Southwestern Ohio EPC Health and Benefits program (“EPC”). The Service Center pays monthly premiums to the Southwestern Ohio EPC for employee medical and dental insurance coverage. The EPC is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. Life insurance is available for employees who meet full-time requirements. This is provided by Metropolitan Educational Council.

B. Workers' Compensation

The Service Center participates in the Sheakley Uniservice, Inc. Workers Compensation Group Rating Program (the Program), an insurance purchasing pool. The Program is intended to reduce premiums for the participants. The worker's compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the program.

Each participant pays its workers' compensation premium to the State based on the rate for the Program rather than its individual rate. Participation in the Program is limited to educational entities that can meet the Program's selection criteria. Each participant must apply annually. The Program provides the participants with a centralized program for the processing, analysis and management of workers' compensation claims and a risk management program to assist in developing safer work environments. Each participant must pay its premiums, enrollment or other fees, and perform its obligations in accordance with the terms of the agreement.

C. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2019, the Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2019, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property	
Building and Business (No deductible)	$ 2,237,269
Earth Movement Limit ($50,000 deductible)	2,000,000
Flood Limit ($50,000 deductible)	2,000,000
Equipment Breakdown (No deductible)	2,237,269
Ammonia Contamination (No deductible)	250,000
Any Other Substance Contamination (No deductible)	250,000
Water Damage, in any one accident (No deductible)	250,000
Consequential Damage, in any one accident (No deductible)	250,000
Crime Coverage	
Employee Theft Including Faithful Performance of Duty (No deductible)	1,000,000
Forgery or Alteration (No deductible)	1,000,000
On Premises	1,000,000
In Transit	1,000,000
Money Orders and Counterfeit Money	1,000,000
Computer Crime	1,000,000
Computer Program and Electronic Data Restoration Expense	350,000
Funds Transfer Fraud	1,000,000
Social Engineering Fraud	200,000

General Liability	
Bodily Injury and Property Damage (No deductible)	$ 15,000,000
Personal Injury/Advertising Liability (No deductible)	15,000,000
Products/Completed Operations (No deductible)	15,000,000
Employers Stop Gap Liability	
Bodily Injury by Accident (Per Accident) (No deductible)	15,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	15,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	15,000,000
General Annual Aggregate	17,000,000
Fire Legal Liability	500,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000/25,000
Educators Legal Liability	
Wrongful Acts Coverage Per Occurrence (No deductible)	15,000,000
Wrongful Acts Coverage Aggregate	15,000,000
Automobile Liability and Physical Damage	
Bodily Injury & Property Damage (Per Occurrence) (No deductible)	15,000,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000/25,000
Automobile Physical Damage (No deductible)	ACV
Garagekeepers Physical Damage (No deductible)	ACV (Maximum $500,000)

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has been no reduction in insurance coverage from the prior fiscal year.

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

	Eligible to Retire 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 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 Service Center's contractually required contribution to SERS was $150,497 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. 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) 31 years of service. 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 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 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 Service Center's contractually required contribution to STRS was $390,959 for fiscal year 2019.

Net Pension Liability

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 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:

	SERS	STRS	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.03507780%	0.02256770%	
Prior Measurement Date	0.03732440%	0.02444961%	
Change in Proportionate Share	-0.00224660%	-0.00188191%	
Proportionate Share of the Net Pension Liability	$ 2,008,971	$ 4,962,131	$ 6,971,102

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 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% 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.

Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the Service Center's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the 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
Service Center's Proportionate Share of the Net Pension Liability	$ 2,829,787	$ 2,008,971	$ 1,320,771

Actuarial Assumptions - STRS

The total pension liability in the June 30, 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:

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

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

	1% Decrease	Current Discount Rate	1% Increase
Service Center's Proportionate Share of the Net Pension Liability	$ 7,246,538	$ 4,962,131	$ 3,028,689

NOTE 7 - DEFINED BENEFIT OPEB PLANS

Net OPEB Asset/Liability

OPEB is a component of exchange transactions--between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB asset/liability represents the Service Center's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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 Service Center's obligation for this liability to annually required payments. The Service Center cannot control benefit terms or the manner in which OPEB are financed; however, the Service Center does receive the benefit of employees' services in exchange for compensation including OPEB.

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

Plan Description - School Employees Retirement System (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 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 Service Center's surcharge obligation was $20,178.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Service Center's contractually required contribution to SERS was $25,752 for fiscal year 2019.

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.

Net OPEB Asset/Liability

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 Service Center's proportion of the net OPEB asset/liability was based on the Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.03558800%	0.02256770%	
Prior Measurement Date	0.03791270%	0.02444961%	
Change in Proportionate Share	-0.00232470%	-0.00188191%	
Proportionate Share of the Net OPEB Liability/(Asset)	$ 987,307	$ (363,000)	$ 624,307

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
Medical Trend Assumption	
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.

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	100.00 %	

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, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 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 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
Service Center's Proportionate Share of the Net OPEB Liability	$ 1,198,020	$ 987,307	$ 820,462

	1% Decrease	Current Trend Rate	1% Increase
Service Center's Proportionate Share of the Net OPEB Liability	$ 796,576	$ 987,307	$ 1,239,870

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

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

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

*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 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 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.

	1% Decrease	Current Discount Rate	1% Increase
Service Center's Proportionate Share of the Net OPEB Liability/(Asset)	$ (310,816)	$ (363,000)	$ (406,195)

	1% Decrease	Current Trend Rate	1% Increase
Service Center's Proportionate Share of the Net OPEB Liability/(Asset)	$ (403,736)	$ (363,000)	$ (320,903)

NOTE 8 - OTHER EMPLOYEE BENEFITS

The Service Center offers medical and dental insurance to all employees through the Mercer Auglaize Employee Benefit Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Governing Board. The Service Center provides life insurance to employees through Metropolitan Educational Council.

NOTE 9 - JOINTLY GOVERNED ORGANIZATION

The Service Center is a participant in the Northwest Ohio Area Computer Services Cooperative ("NOACSC"), which is a computer consortium. NOACSC is an association of educational entities within the boundaries of Allen, Hancock, Auglaize, Paulding, Putnam, Mercer, and Van Wert Counties and the Cities of St. Marys and Wapakoneta. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member educational entities. The governing board of NOACSC consists of two representatives from each county elected by majority vote of all charter member educational entities within each county. Financial information can be obtained from Raymond Burden, who serves as Director, 4277 East Road, Elida, OH 45807.

NOTE 10 - INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

The Service Center participates in the Schools of Ohio Risk Sharing Authority ("SORSA"), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. SORSA is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The SORSA's business and affairs are conducted by a board consisting of nine superintendents and treasurers, as well as an attorney, accountant, and four representatives from the pool's administrator, Willis Pooling. Willis Pooling is responsible for processing claims and establishes agreements between the SORSA and its members. Financial information can be obtained from Willis Pooling, 775 Yard Street, Suite 200, Grandview Heights, Ohio 43212.

B. Sheakley Uniservice, Inc. Workers' Compensation Group Rating Program

The Service Center participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Each year, the participants pay an enrollment fee to the Program to cover the costs of administering the program.

C. Mercer Auglaize Employee Benefit Trust

The Mercer Auglaize Employee Benefit Trust (Trust) is a public entity shared risk pool consisting of eleven local Service Centers and two educational service centers. The Trust is organized as a Voluntary Employee Benefit Association and provides medical and dental benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Huntington Bank, concerning aspects of the administration of the Trust.

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the Mercer County Educational Service Center.

NOTE 11 – FUND BALANCE

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

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

	General	Part B - IDEA	Other Governmental		Total Governmental
Nonspendable:					
Unclaimed Monies	$ 2,034	$ 0	$ 0		$ 2,034
Restricted for:					
STEM Education	0	0	24,713		24,713
Discovery Education	0	0	1,790		1,790
Total Restricted	0	0	26,503		26,503
Committed for:					
Educational Activities	39,435	0	0		39,435
Future Severance Payments	61,199	0	0		61,199
Staff Wellness	0	0	402		402
Total Committed	100,634	0	402		101,036
Assigned for:					
Instruction	42,479	0	0		42,479
Support Services	90,196	0	0		90,196
Other	9,659	0	0		9,659
Total Assigned	142,334	0	0		142,334
Unassigned	1,413,552	0	(6,776)	*	1,406,776
Total Fund Balance	$ 1,658,554	$ 0	$ 20,129		$ 1,678,683

*Unassigned fund balance is due to a deficit fund balance in the Parent Mentor Grant and Title III Grant Funds of $1,452 and $5,324, respectively.

NOTE 12 – CONTINGENCIES AND OTHER COMMITMENTS

A. Grants

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

B. Litigation

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

C. Service Center Funding

Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional Service Centers must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Service Centers, which can extend past the fiscal year end. Per review of the fiscal year 2020 December 1 foundation settlement report, the Service Center is due $59 from ODE.

NOTE 13 – COMPLIANCE

Ohio Administrative Code Section 117-2-03(B) requires the Service Center to prepare its annual financial report in accordance with generally accepted accounting principles. For fiscal year 2019, the Service Center prepared its financial report on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This financial report omits assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equities and disclosures that, while material, cannot be determined at this time.

NOTE 14 – INTERFUND ACTIVITY

During fiscal year 2019, the Service Center had the following advance activity:

	Advances In	Advances Out
Major Governmental Funds:		
General Fund	$ 10,513	$ 30,179
IDEA Part B	30,179	513
Other Governmental Fund:		
Parent Mentor Grant	0	10,000
Total Advances	$ 40,692	$ 40,692

Advances were made during fiscal year 2019 from the General Fund to cover expenditures made by separate funds awaiting reimbursement by granting authorities. Advances made by the IDEA Part B fund and the other governmental fund to the General Fund were repayment of outstanding loans from prior year.

NOTE 15 – CONTRACTUAL COMMITMENTS

As of June 30, 2019, the Service Center had contractual commitments with ESC of Central Ohio for $19,997 and Premiere Speakers Bureau, Inc. for $7,500. Both contracts are for professional development events.

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MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Federal Grantor/ Pass-Through Agency Program Titles	Federal CFDA Number	Federal Expenditures
U.S. Department of Education		
(Passed through the Ohio Department of Education)		
Special Education Cluster:		
Special Education Grants to States	84.027	$763,344
Special Education Preschool Grants	84.173	46,166
Total Special Education Cluster		809,510
English Language Acquisition State Grants	84.365	30,601
Total U.S Department of Education		840,111
Total Expenditures of Federal Awards		$840,111

See accompanying Notes to the Schedule of Expenditures Of Federal Awards

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Mercer County Educational Service Center (the Service Center's) under programs of the federal government for the fiscal year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Service Center, it is not intended to and does not present the financial position or changes in net position of the Service Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – INDIRECT COST RATE

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

NOTE D – FEDERAL AWARDS ADMINISTERED FOR OTHER GOVERNMENTS

The Service Center applies for and administers grants on behalf of member school districts. The Service Center reports these grants on their Schedule of Expenditures of Federal Awards and they are subject to audit during the Service Center's annual audit according to the Uniform Guidance. Awards which are reported by the Service Center which benefit member districts are as follows:

District	Award Amount IDEA Part B	Award Amount IDEA Early Childhood
Coldwater Exempted Village School District		$13,372.88
Fort Recovery Local School District	$177,612.24	$8,110.47
Marion Local School District	$155,797.43	$7,749.98
Parkway Local School District	$208,123.83	$8,478.89
St. Henry Consolidated Local	$180,138.40	$8,453.43
Total	$721,671.90	$46,165.65

NOTE E – ADMINISTRATIVE AGENT

The Service Center is the Administrative Fiscal Agent for the Mercer County ESC Title III Consortia. In this capacity, the Service Center operated this as a reimbursing grant for the eighteen participating school districts. This money is utilized by the educating district to supplement learning for English language learners (C.F.D.A. #84.365). During this fiscal year, the Service Center expended $30,601, of which $566 was the administrative fee kept by the Service Center.

OHIO AUDITOR OF STATE
KEITH FABER

One First National Plaza
130 West Second Street, Suite 2040
Dayton, Ohio 45402-1502
(937) 285-6677 or (800) 443-9274
WestRegion@ohioauditor.gov

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

Mercer County Educational Service Center
Mercer County
441 E. Market St.
Celina, Ohio 45822

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, Mercer County, (the Service Center) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated March 24, 2020, wherein we noted the Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

Service Center's Response to Finding

The Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings and corrective action plan. We did not subject the Service Center's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Keith Faber
Auditor of State
Columbus, Ohio

March 24, 2020

OHIO AUDITOR OF STATE
KEITH FABER

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

Mercer County Educational Service Center
Mercer County
441 E. Market St.
Celina, Ohio 45822

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Mercer County Educational Service Center's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect Mercer County Educational Service Center's major federal program for the fiscal year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Service Center's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Mercer County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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

Keith Faber

Keith Faber
Auditor of State
Columbus, Ohio

March 24, 2020

MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY

SCHEDULE OF FINDINGS
2 C.F.R. § 200.515
JUNE 30, 2019

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2019-001

Noncompliance

Ohio Rev. Code §117.38(A) provides that each public office "shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office."

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the Service Center to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

FINDING NUMBER 2019-001
(Continued)

The Service Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Service Center's ability to evaluate and monitor the overall financial condition of the Service Center. To help provide the users with more meaningful financial statements, the Service Center should prepare its annual financial statements according to generally accepted accounting principles.

Officials' Response:

The ESC does not plan to begin filling GAAP statements due to the extensive cost of preparing the statements as well as the additional cost in auditing such statements. It is believed by both the treasurer and the board of education that the funds saved by using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

MERCER COUNTY
educational service center

Mercer County Educational Service Center

441 East Market Street
Celina, Ohio 45822
Office: (419) 586-6628 Fax: (419) 586-3377
www.mercercountyesc.org

Shelly Vaughn
Superintendent

Kurt Wendel
Treasurer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR 200.511(b)
JUNE 30, 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	Ohio Rev. Code Section 117.38 & Ohio Admin. Code Section 117-2-03(B) – Failure to prepare financial statements in accordance with GAAP	Not Corrected	The ESC does not file GAAP statements due to the extensive cost of preparing the statements as well as the additional cost in auditing such statements. It is believed by both the treasurer and the board of education that the funds saved by using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.

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Shelly Vaughn
Superintendent

Kurt Wendel
Treasurer

CORRECTIVE ACTION PLAN
2 CFR § 200.511(c)

JUNE 30, 2019

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2019-001	The ESC does not plan to begin filling GAAP statements due to the extensive cost of preparing the statements as well as the additional cost in auditing such statements. It is believed by both the treasurer and the board of education that the funds saved by using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.	N/A	Kurt Wendel

OHIO AUDITOR OF STATE
KEITH FABER

MERCER COUNTY EDUCATIONAL SERVICE CENTER

MERCER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 16, 2020