

**EDUCATIONAL SERVICE CENTER
OF LORAIN COUNTY**
LORAIN COUNTY, OHIO

SINGLE AUDIT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2020**

OHIO AUDITOR OF STATE
KEITH FABER



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Members of the Board
Educational Service Center of Lorain County
1885 Lake Ave
Elyria, OH 44035

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of Lorain County, Lorain County, prepared by Julian & Grube, Inc., for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

January 26, 2021

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

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Independent Auditor's Report

Educational Service Center of Lorain County
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Educational Service Center of Lorain County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, as of June 30, 2020, and the respective changes in financial position, thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 19 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center of Lorain County. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Educational Service Center of Lorain County's basic financial statements. The accompanying schedule of revenues, expenditures, and changes in fund balance – budget basis (non-GAAP) and actual for the General fund is presented for additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2020, on our consideration of the Educational Service Center of Lorain County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Educational Service Center of Lorain County's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center of Lorain County's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 21, 2020

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

The discussion and analysis of the Educational Service Center of Lorain County's (the Educational Service Center) financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole. Readers should also review the financial statements and notes to those respective statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for 2020 are as follows:

- In total, net position increased by \$ 212,005.
- Revenues for governmental activities totaled \$ 12,041,877 in 2020, compared to \$ 11,483,160 in 2019. Of the 2020 total revenue, 9.5 percent consisted of general revenues while program revenues accounted for the balance of 90.5 percent.
- Program expenses totaled \$ 11,829,872 for 2020, an increase of \$ 2,202,985 compared to 2019. In 2020, instructional expenses made up 24.1 percent of program expenses while support services accounted for 74.9 percent and other expenses rounded out the remaining 1.0 percent.

Using this Annual Financial Report

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all the funds used by the Educational Service Center to provide programs and activities, the view of the Educational Service Center as a whole considers all financial transactions and asks the question, "How did we do financially during 2020?" The *Statement of Net Position* and the *Statement of Activities* answers this question. These statements include all Non-Fiduciary assets and liabilities using the accrual basis of accounting, similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 10. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

The Educational Service Center as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2020 compared to 2019:

Table 1
Net Position
Governmental Activities

	2020	2019
Assets		
Current and other assets	\$ 4,615,369	\$ 4,048,587
Noncurrent assets	797,417	757,454
Capital assets, net	840,016	856,119
Total assets	<u>6,252,802</u>	<u>5,662,160</u>
Deferred outflows of resources	<u>2,918,316</u>	<u>3,647,670</u>
Liabilities		
Current liabilities and other liabilities	1,317,494	1,279,143
Long term liabilities		
Due within one year	189,097	170,874
Due in more than one year	14,709,884	14,507,880
Total liabilities	<u>16,216,475</u>	<u>15,957,897</u>
Deferred inflows of resources	<u>2,188,375</u>	<u>2,797,670</u>
Net position		
Net investment in capital assets	840,016	856,119
Restricted	860,852	782,429
Unrestricted	(10,934,600)	(11,084,285)
Total net position	<u>\$ (9,233,732)</u>	<u>\$ (9,445,737)</u>

The net pension liability (NPL) and net other postemployment benefits liability are the largest liabilities reported by the Educational Service Center at June 30, 2020 and is reported pursuant to GASB 68, "Accounting and Financial Reporting for Pensions-an Amendment of GASB 27 and GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and OPEB and the net pension liability and net OPEB liability to the reported net position and subtracting net OPEB asset and deferred outflows related to pension and OPEB.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

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

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

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

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

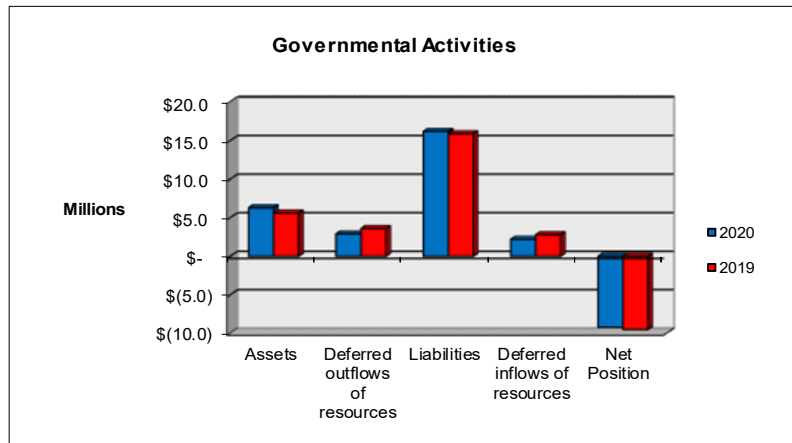
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In accordance with GASB 68 and GASB 75, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pensions expense and annual OPEB expense(income) for their proportionate share of each plan's change in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

At year-end, capital assets represented 13.4 percent of total assets. Capital assets include land, building and improvements, furniture, fixtures and equipment, and vehicles. Net investment in capital assets was \$ 840,016 at June 30, 2020. These capital assets are used to provide services to students and are not available for future spending.

A portion of the Educational Service Center's net position, \$ 860,852 represents resources that are subject to external restrictions on how they may be used. The government-wide unrestricted net position was a deficit of \$ 10,934,600 in fiscal year 2020, which is primarily caused by the changes to the net pension and net OPEB activities.

Total assets increased by \$ 590,642, with the most significant increase being with equity in pooled cash and investments of \$ 505,214. Liabilities increased by \$ 258,578, with current liabilities increasing by \$ 38,351 and long-term liabilities increasing by \$ 220,227, which are primarily due to an increase in net pension liability.



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

In order to further understand what makes up the changes in net position for the current year, Table 2 gives readers further details regarding the results of activities for 2020 and 2019.

Table 2
Changes in Net Position
Governmental Activities

	<u>2020</u>	<u>2019</u>
Revenues		
Program revenue		
Charges for services and sales	\$ 8,576,486	\$ 8,249,031
Operating grants, interest and contributions	2,321,000	2,144,530
Total program revenue	<u>10,897,486</u>	<u>10,393,561</u>
General revenue		
Grants and entitlements not restricted for specific purposes	670,177	667,791
Investment earnings	47,361	44,202
Miscellaneous	426,853	377,606
Total general revenues	<u>1,144,391</u>	<u>1,089,599</u>
Total revenues	<u>12,041,877</u>	<u>11,483,160</u>
Program expenses		
Instruction		
Regular	711,697	713,983
Special	2,141,529	1,668,714
Supporting services		
Pupil	2,803,226	1,909,800
Instructional staff	4,340,220	3,574,930
Board of education	26,337	34,100
Administration	706,471	592,988
Fiscal services	409,355	376,431
Business	60,082	226,546
Operation and maintenance	403,694	365,176
Central services	110,366	65,050
Operation of non-instructional services	101,834	84,507
Extracurricular activities	15,061	14,662
Total program expenses	<u>11,829,872</u>	<u>9,626,887</u>
Change in net position	<u>\$ 212,005</u>	<u>\$ 1,856,273</u>

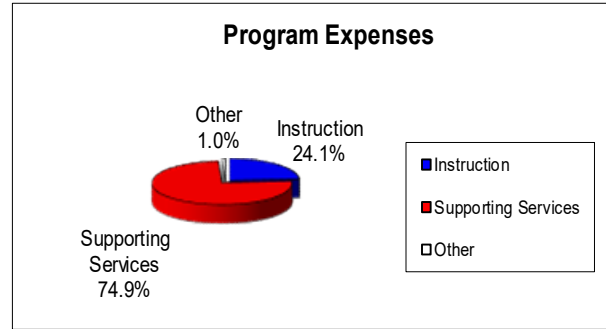
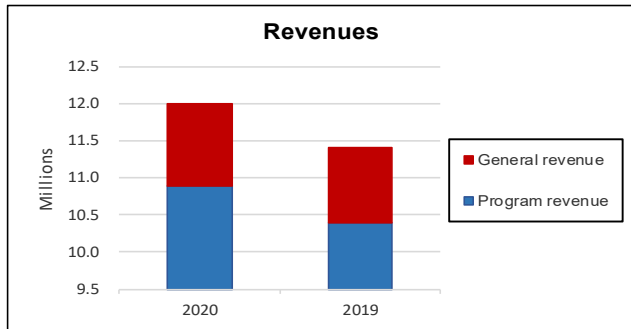
Charges for services and sales increased by \$ 327,455 due primarily to an increase in services provided to member districts. Operating grants, interest and contributions increased by \$ 176,470 and grants and entitlements not restricted for specific purposes increased by \$ 2,386 during 2020 due to increases in several grant amounts received compared to the prior year.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

The increase in program expenses is due to the pension and OPEB benefit term changes resulting in increased pension and OPEB expenses compared to revenue in 2019.



Governmental Activities

The Statement of Activities shows the total net cost of program services. Table 3 shows the total cost of services for governmental activities and the net cost of those services. The Net Cost of Services 2020 tells the reader what services are self-supporting and those that are supported by unrestricted State entitlements.

**Table 3
Net Costs of Services**

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Governmental activities				
Instruction				
Regular	\$ 711,697	\$ 713,983	\$ 32,818	\$ 239,130
Special	2,141,529	1,668,714	85,595	480,526
Supporting services				
Pupil	2,803,226	1,909,800	122,960	636,591
Instructional staff	4,340,220	3,574,930	158,199	730,784
Board of education	26,337	34,100	(26,337)	(34,100)
Administration	706,471	592,988	(706,471)	(592,988)
Fiscal services	409,355	376,431	(66,679)	(46,470)
Business	60,082	226,546	(60,082)	(226,546)
Operation and maintenance	403,694	365,176	(394,119)	(365,176)
Central services	110,366	65,050	(110,366)	(65,050)
Operation of non-instructional services	101,834	84,507	(8,203)	8,275
Extracurricular activities	15,061	14,662	40,299	1,698
Totals	<u>\$ 11,829,872</u>	<u>\$ 9,626,887</u>	<u>\$ (932,386)</u>	<u>\$ 766,674</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUN 30, 2020

UNAUDITED

The Educational Service Center's Funds

Information regarding the Educational Service Center's major funds can be found starting on page 13. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues excluding other financing sources of \$ 11,902,065 and expenditures excluding other financing uses of \$ 11,526,562. The most significant fund, the General Fund had a fund balance increase of \$ 376,483. General Fund total revenues increased \$ 287,158 which is the result of growing programs and increased fees for programs and services. General Fund expenditures decreased \$ 107,195 which was a result of decreases in staff salaries/wages and benefits.

Capital Assets

At the end of fiscal year 2020, the Educational Service Center had \$ 846,016 invested in land, building and improvements, vehicles and furniture and fixtures, net of accumulated depreciation. Table 4 shows fiscal year 2020 values compared to 2019.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

	2020	2019
Land	\$ 227,600	\$ 227,600
Building and improvements	497,219	521,497
Furniture, fixtures and equipment	103,208	93,749
Vehicles	11,989	13,273
Total capital assets	<u>\$ 840,016</u>	<u>\$ 856,119</u>

All capital assets are reported at historical cost. For more information on capital assets refer to Note 9 of the basic financial statements.

Current Financial Related Activities

The Educational Service Center is financially sound. The Board and administration closely monitors its revenue and expenditures in accordance with board policy. The Educational Service Center is committed to serving its client's districts and will continue to do so. While many outside factors can affect the economy, the Educational Service Center is committed to providing the best services possible and to be fiscally responsible now and in the future.

Changes made with HB64 has reduced the state subsidy per pupil amount to the rate of \$ 26 per pupil. This has required the ESC to rely, more than ever before, on district invoicing for services provided. The categories of revenues and expenses are subject to interpretation and reclassification. Regardless, the bottom line is the same.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service center's accountability for the money it receives. If you have any questions about this report or need additional financial information contact Ms. Angela Dotson, Treasurer, at the Educational Service Center of Lorain County, 1885 Lake Ave., Elyria, Ohio 44035 or calling 440-324-5777 ext. 1125.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF NET POSITION

JUNE 30, 2020

	Governmental Activities
	<u> </u>
Assets	
Equity in pooled cash and investments	\$ 3,804,097
Accounts receivable	65,889
Due from other governments	745,383
Other postemployment benefits asset	797,417
Capital assets	
Nondepreciable capital assets	227,600
Depreciable capital assets, net	612,416
Total assets	<u>6,252,802</u>
Deferred outflow s of resources	
Pension	2,634,247
Other postemployment benefits	284,069
Total deferred outflow s of resources	<u>2,918,316</u>
Liabilities	
Accounts and contracts payable	21,490
Accrued salaries, w ages and benefits	1,116,254
Due to other governments	179,750
Long term liabilities	
Due w ithin one year	189,097
Due in more than one year	
Other amounts due in more than one year	301,647
Net pension liability	13,279,210
Net other postemployment benefits liability	1,129,027
Total liabilities	<u>16,216,475</u>
Deferred inflow s of resources	
Pension	881,511
Other postemployment benefits	1,306,864
Total deferred inflow s of resources	<u>2,188,375</u>
Net position	
Investment in capital assets	840,016
Restricted for	
Other postemployment benefits asset	797,417
Other purposes	63,435
Unrestricted	(10,934,600)
Total net position	<u>\$ (9,233,732)</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants Interest and Contributions	Revenue and Changes in Net Position
Governmental activities				
Instruction				
Regular	\$ 711,697	\$ 744,515	\$ -	\$ 32,818
Special	2,141,529	1,994,111	233,013	85,595
Supporting services				
Pupil	2,803,226	2,926,186	-	122,960
Instructional staff	4,340,220	2,559,423	1,938,996	158,199
Board of education	26,337	-	-	(26,337)
Administration	706,471	-	-	(706,471)
Fiscal services	409,355	342,676	-	(66,679)
Business	60,082	-	-	(60,082)
Operation and maintenance	403,694	9,575	-	(394,119)
Central services	110,366	-	-	(110,366)
Operation of non-instructional services	101,834	-	93,631	(8,203)
Extracurricular activities	15,061	-	55,360	40,299
Totals	<u>\$ 11,829,872</u>	<u>\$ 8,576,486</u>	<u>\$ 2,321,000</u>	<u>(932,386)</u>
General revenues				
Grants and entitlements not restricted to specific purposes				670,177
Investment earnings				47,361
Miscellaneous				426,853
Total general revenues				<u>1,144,391</u>
Change in net position				212,005
Net position at beginning of year				<u>(9,445,737)</u>
Net position at end of year				<u>\$ (9,233,732)</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

BALANCE SHEET – GOVERNMENTAL FUNDS

JUNE 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in pooled cash and investments	\$ 3,740,662	\$ 63,435	\$ 3,804,097
Receivables	65,889	-	65,889
Due from other governments	572,508	172,875	745,383
Interfund receivable	91,006	-	91,006
Total assets	<u>\$ 4,470,065</u>	<u>\$ 236,310</u>	<u>\$ 4,706,375</u>
Liabilities			
Accounts and contracts payable	\$ 16,810	\$ 4,680	\$ 21,490
Accrued wages and benefits	1,037,309	78,945	1,116,254
Due to other governments	167,576	12,174	179,750
Interfund payable	-	91,006	91,006
Compensated absences payable	30,629	-	30,629
Total liabilities	<u>1,252,324</u>	<u>186,805</u>	<u>1,439,129</u>
Deferred inflow s of resources			
Unavailable resources	<u>104,725</u>	<u>46,988</u>	<u>151,713</u>
Fund balances			
Restricted	-	63,444	63,444
Assigned	109,762	-	109,762
Unassigned (deficit)	3,003,254	(60,927)	2,942,327
Total fund balances	<u>3,113,016</u>	<u>2,517</u>	<u>3,115,533</u>
Total liabilities, deferred inflow s of resources, and fund balances	<u>\$ 4,470,065</u>	<u>\$ 236,310</u>	<u>\$ 4,706,375</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2020

Amount reported for governmental activities in the statement of net position are different because:

Total governmental funds balances		\$ 3,115,533
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		840,016
Other long term assets are not available to pay for current period expenditures and therefore are deferred inflow s in the funds:		
Intergovernmental revenue		151,713
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated absences		(460,115)
Net pension and other post employment benefit liabilities are not due and payable in the current period and therefore the asset, liability and related deferred outflow s/inflow s of resources are not reported in the governmental funds:		
Net other post employment benefits asset	\$ 797,417	
Deferred outflow of resources - pension and other post employment benefits	2,918,316	
Net pension and other post employment benefits liability	(14,408,237)	
Deferred inflow of resources - pension and other post employment benefits	<u>(2,188,375)</u>	
		<u>(12,880,879)</u>
Net position of governmental activities		<u>\$ (9,233,732)</u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Tuition and fees	\$ 5,947,248	\$ -	\$ 5,947,248
Interest	47,361	-	47,361
Intergovernmental	1,121,128	1,834,962	2,956,090
Charges for services	2,889,579	-	2,889,579
Rentals	9,575	-	9,575
Other	37,852	14,360	52,212
Total revenues	10,052,743	1,849,322	11,902,065
Expenditures			
Current			
Instruction			
Regular	704,677	-	704,677
Special	1,856,751	234,052	2,090,803
Supporting services			
Pupil	2,703,004	5,907	2,708,911
Instructional staff	2,731,700	1,510,451	4,242,151
Board of education	25,983	-	25,983
Administration	684,398	4,535	688,933
Fiscal services	401,281	6,399	407,680
Business	59,136	-	59,136
Operation and maintenance	457,298	-	457,298
Central services	26,929	-	26,929
Operation of non-instructional services	24,276	73,897	98,173
Extracurricular activities	-	15,061	15,061
Capital outlay	827	-	827
Total expenditures	9,676,260	1,850,302	11,526,562
Net change in fund balances	376,483	(980)	375,503
Fund balances, beginning of year	2,736,533	3,497	2,740,030
Fund balances, end of year	\$ 3,113,016	\$ 2,517	\$ 3,115,533

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balance - total governmental funds	\$	375,503
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay	\$ 26,224	
Depreciation expense	<u>(42,327)</u>	(16,103)
Revenues (intergovernmental) in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		136,212
Contractually required contributions for pension and OPEB are reported as expenditures in governmental funds; however, the statement of activities reports these amounts as deferred outflows of resources.		1,015,387
Except for amounts reported as deferred outflows/inflows of resources, changes in the net pension/OPEB liability/asset are reported as pension/OPEB expense in the statement of activities.		(1,438,389)
Some expenses (compensated absences) reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		<u>139,395</u>
Change in net position of governmental activities	\$	<u><u>212,005</u></u>

See accompanying notes to the basic financial statements.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS

JUNE 30, 2020

	<u>Agency Funds</u>
Assets	
Equity in pooled cash and investments	\$ 34,660
Cash and investments in segregated accounts	<u>25,135,158</u>
Total assets	<u>\$ 25,169,818</u>
Liabilities	
Due to others	<u>\$ 25,169,818</u>
Total liabilities	<u>\$ 25,169,818</u>

See accompanying notes to the basic financial statements.

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EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

On June 13, 1914, the Educational Service Center of Lorain County (the Educational Service Center) was formed. The Educational Service Center supplies supervisory, administrative, fiscal, and other needed services to school districts and other agencies in the greater Lorain County area.

The Educational Service Center operates under a locally elected five-member Board form of government and provides educational services as mandated by state or federal agencies. The Board controls the Educational Service Center's facility and staff who provide services to 40,420 students in local, city and exempted village school districts in Lorain County.

REPORTING ENTITY

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

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

The Educational Service Center is associated with certain organizations which are defined as jointly governed organizations. These organizations are presented in Note 8 to the basic financial statements. These organizations are Connect and Lake Erie Regional Council of Governments (LERC).

B. BASIS OF PRESENTATION

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to accounting principles generally accepted in the United State of America (GAAP) for local governmental units prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. Explanation of the Educational Service Center's more significant policies follow.

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. BASIS OF PRESENTATION (continued)

Government-wide Financial Statements

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

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

Fund Financial Statements

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

C. FUND ACCOUNTING

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

Governmental Funds

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

General Fund - The General Fund is the general operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. FUND ACCOUNTING (continued)

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

Fiduciary Fund Type

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency fund accounts for the LERC activities.

D. MEASUREMENT FOCUS

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

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

E. BASIS OF ACCOUNTING

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

Revenues - Exchange and Non-exchange Transactions

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. BASIS OF ACCOUNTING (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB plans are explained in Note 17 and 18, respectively.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Educational Service Center, deferred inflows of resources include pension, OPEB and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants and miscellaneous revenues. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. For 2020, the Educational Service Center reported \$ 151,713 in unavailable revenue from intergovernmental grants and miscellaneous revenues. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Note 17 and 18.)

Expenditures/Expenses

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. CASH AND INVESTMENTS

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

During fiscal year 2020, investments were limited to certificates of deposit, STAR Ohio (State Treasurer's Investment Pool), municipal bonds, treasury notes, and federal agency securities. Additional investments included commercial paper, and money markets of which the Educational Service Center is a fiscal agent. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase are reported at cost or amortized cost.

The Educational Service Center invested funds in STAR Ohio during fiscal year 2020. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does adopt Government Accounting Standards Board (GASB) Statement 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2020, 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 \$ 100 million. STAR Ohio reserves the right to limit the transaction to \$ 100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$ 100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes, the Governing Board may, by resolution, identify the funds to receive an allocation of interest earnings. During fiscal year 2020, the General Fund received \$ 47,361 in interest income of which none was assigned from other funds.

The Educational Service Center is fiscal agent for LERC. The Educational Service Center has segregated LERC's funds into separate bank accounts for individual investment accounts held separate from the Educational Service Center's pooled monies. These interest bearing depository accounts are presented on the statement of fiduciary assets and liabilities as "Cash and Investments in Segregated Accounts" since they are not required to be deposited into the Educational Service Center's treasury.

G. PREPAID ITEMS

Payments made to vendors for services that will benefit periods beyond June 30, 2020, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. At June 30, 2020, the Educational Service Center did not have any prepaids.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. CAPITAL ASSETS

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center's capitalization threshold is \$ 2,400. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, other than land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Asset</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Buildings and improvements	5 - 30 years
Furniture, fixtures and equipment	5 - 10 years

I. INTERFUND BALANCES

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

J. ESTIMATES

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

K. COMPENSATED ABSENCES

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

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

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

M. INTERFUND TRANSACTIONS

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditure/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

N. PENSIONS/OTHER POST EMPLOYMENT BENEFITS (OPEB)

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

O. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Investment in capital assets consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. The government-wide statement of net position reports \$ 860,852 as restricted, none of which is restricted by enabling legislation. The restriction on net position for other purposes consists of other grants.

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. FUND BALANCE

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

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

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board. Those 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. The Educational Service Center has no committed fund balances.

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

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

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

Q. EXTRAORDINARY AND SPECIAL ITEMS

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Educational Service Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2020.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES

GASB Statement No. 84, Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Activities meeting the criteria should be reported in a fiduciary fund in the basic financial statements. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2019. The Educational Service Center has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after June 15, 2021. The Educational Service Center has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, issued in June 2018, establishes guidance designed to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period by simplifying accounting for interest cost incurred before the end of a construction period. GASB subsequently issued GASB Statement No. 95, which deferred the effective date of this standard to reporting periods beginning after December 15, 2020. The Educational Service Center has not yet determined the impact that this GASB pronouncement will have on its financial statements and disclosures.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 – ACCOUNTABILITY AND COMPLIANCE

DEFICIT FUND BALANCE

At June 30, 2020, the following non-major funds had deficit fund balance; the Public School Preschool Fund of \$ 12,613, the Miscellaneous State Fund of \$ 30,310, the Title I Fund of \$ 13,120 and the Limited English Proficiency Fund of \$ 4,884. The General Fund is liable for any deficit in this fund and provides transfers when cash is required, not when accruals occur. The deficit fund balances resulted from adjustments for accrued liabilities.

NOTE 4 – FUND BALANCE

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

<u>Fund Balance</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for			
Other grants	\$ -	\$ 63,435	\$ 63,435
IDEA	-	9	9
Total restricted	<u>-</u>	<u>63,444</u>	<u>63,444</u>
Assigned for			
Early learning center	4,023	-	4,023
Other purpose	105,739	-	105,739
Total assigned	<u>109,762</u>	<u>-</u>	<u>109,762</u>
Unassigned (deficit)	3,003,254	(60,927)	2,942,327
Total all fund balances	<u>\$ 3,113,016</u>	<u>\$ 2,517</u>	<u>\$ 3,115,533</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 5 - DEPOSITS AND INVESTMENTS

A. LEGAL REQUIREMENTS

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

Category 1 consists of "active" moneys, those moneys are required to be kept in a cash" or "near-cash" status for immediate use by the Educational Service Center. Such moneys must be maintained either as cash in the Educational Service Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Category 2 consists of "inactive" moneys, those moneys not required for use within the current five year period of designation of depositories. Inactive moneys must be deposited or invested as certificates of deposit maturing no later than the end of the current period of designation of depositories, or as savings or deposit accounts including, but not limited to, passbook accounts.

Category 3 consists of "interim" moneys, those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings or deposit accounts (including passbook accounts).

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily; and that the term of the agreement does not exceed 30 days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bond and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
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 Treasury Asset Reserve of Ohio; (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed 180 days and 270 days, respectively, in an amount not to exceed 40 percent of the interim moneys available for investment at any one time; and

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

A. LEGAL REQUIREMENTS (continued)

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

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

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. Except as noted above, an investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Educational Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made 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.

B. DEPOSITS

Custodial credit risk is the risk that, in the event of bank failure, the Educational Service Center's deposits may not be returned. The Educational Service Center does not have a deposit policy for custodial credit risk. At fiscal year end, the carrying amount of the Educational Service Center's deposits including cash and investments in segregated accounts was \$ 15,796,293 and the bank balance was \$ 16,165,083. Of the bank balance, \$ 10,443,000 was covered by federal depository insurance and \$ 5,722,714 was collateralized with securities held by the pledging institution's trust department not in the Educational Service Center's name.

C. INVESTMENTS

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Educational Service Center does not have an investment policy for custodial credit risk. As of June 30, 2020, the Educational Service Center had the following investments and maturities:

Investment Type	Fair Value	1 Year or less	2 Years	3 Years
Star Ohio (amortized cost)	\$ 7,053,019	\$ 7,053,019	\$ -	\$ -
Commercial paper	1,119,467	1,119,467	-	-
US Treasury	962,566	962,566	-	-
FHLB	544,808	99,809	-	444,999
FHLM	1,998,983	149,713	350,000	1,499,270
FNMA	225,000	-	-	225,000
FFCB	789,500	-	639,500	150,000
Municipal bonds	484,279	-	373,265	111,014
	<u>\$ 13,177,622</u>	<u>\$ 9,384,574</u>	<u>\$ 1,362,765</u>	<u>\$ 2,430,283</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

C. INVESTMENTS (continued)

The Educational Service Center categorizes its fair value measurements with the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. The Educational Service Center's investments in U.S. Government money market mutual funds are valued using quoted market prices in active markets (Level 1 inputs). The Educational Service Center's investment in federal agency securities, commercial paper and U.S. Treasury notes are valued using quoted prices in markets that are not considered to be active, dealer quotations or alternative pricing sources for similar assets or liabilities for which all significant inputs are observable, either directly or indirectly (Level 2 inputs). The above table identifies the recurring fair value measurements as of June 30, 2020.

D. INTEREST RATE RISK

As a means of limiting its exposure to fair value losses from rising interest rates and according to state law, the Educational Service Center's investment policy limits investment maturities to five years or less.

E. CREDIT RISK

The Educational Service Center follows the Ohio Revised Code that limits its investment choices. The Educational Service Center has no investment policy that would further limit its investment choices. The Educational Service Center's investments, except for STAR Ohio and commercial paper, were rated AA+, AA, A-1+ and Aaa by Standard & Poor's or Moody's Investor Services. Standard & Poor's has assigned STAR Ohio a rating of AAAM, while commercial paper is assigned a rating of A-1+ or A-1.

F. CONCENTRATION OF CREDIT RISK

The Educational Service Center's places no limit on the amount that may be invested to any one issuer. The following table includes the percentage of total of each investment type held by the Educational Service Center at June 30, 2020:

Investment Type	Fair Value	Percent of Total
Star Ohio	\$ 7,053,019	53.52%
Commercial paper	1,119,467	8.50%
US Treasury	962,566	7.30%
FHLB	544,808	4.13%
FHLMC	1,998,983	15.17%
FNMA	225,000	1.71%
FFCB	789,500	5.99%
Municipal bonds	484,279	3.68%
	\$ 13,177,622	100.00%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 6 - RECEIVABLES

Receivables at June 30, 2020, consisted of accounts (charges for services and tuition) and intergovernmental grants. All receivables are considered collectible within one year and in full due to the stable condition of State programs and the current fiscal year guarantee of federal funds and all receivables will be collected within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
Governmental activities:	
Major fund	
General fund	\$ 572,508
Non-major funds	
Early childhood education	7,719
Miscellaneous state grants	31,685
Title VI R	13,487
IDEA	87,337
Title I	24,579
Preschool disabilities	5,679
Limited english proficiency	2,389
Total due from other governments	<u>\$ 745,383</u>

NOTE 7 - STATE FUNDING

The Educational Service Center receives about 11% of its funding from the Ohio Department of Education. The state provides a subsidy in a per pupil amount at the rate of \$ 26 per pupil. In addition, the Educational Service Center receives \$ 6.50 per pupil as a local deduction from districts aligned with the Educational Service Center.

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS

A. CONNECT

The North Coast Council became known as Connect effective April 1, 2016. The new governing Board of Directors, the Educational Service Centers of Cuyahoga, Lorain and Medina County and the Ohio Schools Council, have accepted the ownership, responsibility and liability of Connect in order to provide exemplary service to member districts. The Superintendent/Executive Director of the three ESCs and Ohio Schools Council shall serve on Connect's Board of Directors. The purpose of Connect is applying modern technology (with the aid of computers and other electronic equipment) to administrative and instructional functions for member districts. Fiscal information for Connect is available from the Treasurer of the Educational Service Center of Cuyahoga County (fiscal agent), located at 6393 Oak Tree Boulevard, Independence, Ohio 44131. In fiscal year 2020, the Educational Service Center paid \$ 20,247 to Connect.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 - JOINTLY GOVERNED ORGANIZATIONS (continued)

B. LAKE ERIE REGIONAL COUNCIL (LERC)

The Lake Erie Regional Council (LERC) is a jointly governed organization comprised of ten school districts. The jointly governed organization currently exist for the purpose of health insurance for its participating districts and the Educational Service Center. Payments are made monthly for premiums by the ten member districts as established and approved by the Board of Directors. LERC is governed by a board of directors which consists of a superintendent, treasurer or designated representative from each participating school district and the Educational Service Center. The degree of control exercised by any participating school district and the Educational Service Center is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Educational Service Center of Lorain County at 1885 Lake Avenue, Elyria, Ohio.

NOTE 9 - CAPITAL ASSETS

Capital asset activity during fiscal year 2020 is as follows:

Governmental Activities	Balance June 30, 2019	Additions	Disposals	Balance June 30, 2020
Nondepreciable capital assets				
Land	\$ 227,600	\$ -	\$ -	\$ 227,600
Depreciable capital assets				
Buildings and improvements	1,063,335	-	-	1,063,335
Furniture, fixtures and equipment	433,418	26,224	-	459,642
Vehicles	14,418	-	-	14,418
Total capital assets being depreciated	<u>1,511,171</u>	<u>26,224</u>	<u>-</u>	<u>1,537,395</u>
Less accumulated depreciation				
Buildings and improvements	(541,838)	(24,278)	-	(566,116)
Furniture, fixtures and equipment	(339,669)	(16,765)	-	(356,434)
Vehicles	(1,145)	(1,284)	-	(2,429)
Total accumulated depreciation	<u>(882,652)</u>	<u>(42,327)</u>	<u>-</u>	<u>(924,979)</u>
Depreciable capital assets, net of accumulated depreciation	<u>628,519</u>	<u>(16,103)</u>	<u>-</u>	<u>612,416</u>
Governmental activities capital assets, net	<u>\$ 856,119</u>	<u>\$ (16,103)</u>	<u>\$ -</u>	<u>\$ 840,016</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 9 - CAPITAL ASSETS (continued)

Depreciation expense was charged to governmental functions as follows:

Instruction	
Regular	\$ 80
Supporting services	
Pupils	431
Instructional staff	11,768
Administration	1,257
Business	9,102
Operations and maintenance	19,689
Total depreciation expense	<u>\$ 42,327</u>

NOTE 10 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Educational Service Center contracted with Liberty Mutual Insurance Company for general liability insurance. Owned vehicles are covered by Liberty Mutual and have a \$ 250 deductible for comprehensive and a \$ 250 deductible for collision. The vehicle liability insurance is on an occurrence basis with a \$ 1,000,000 combined single limit. Claims have not exceeded this coverage in any of the past three years. There has been no significant reduction in coverage from the prior year. Professional liability is protected by Liberty Mutual with a \$ 1,000,000 annual aggregate/\$ 1,000,000 single occurrence limit and a \$ 5,000 deductible.

For fiscal year 2020, the Educational Service Center participated in the Sheakley Workers' Compensation Group rating Program. The program is intended to reduce premiums for the participants. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the program. Each participant pays its rate. Participation in the program is limited to members that can meet the program's selection criteria. The members apply for participation each year. Sheakley Co. provides administrative, cost control, and actuarial services to the program. Each year the Educational Service Center pays an enrollment fee to the program to cover the costs of administration.

NOTE 11 - EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn ten to 30 days of vacation per year, depending upon length of service. Accumulated unused vacation (to a maximum of 40 days) is paid to employees upon termination of employment. Not all employees earn vacation time. All employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 240 days. Upon retirement, payment is made for one-fourth of the total sick leave accumulation, up to a maximum accumulation of 120 days, and one-third of accumulated sick leave beyond 120 days, to a maximum accumulation of 210 days. Maximum payment may not exceed 60 days.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 11 - EMPLOYEE BENEFITS (continued)

B. LIFE INSURANCE

The Educational Service Center provides life insurance and accidental death and dismemberment insurance to most employees through Ohio Educational Life Insurance Trust in an amount equal to one half times the employee's salary rounded to the nearest \$ 500.

NOTE 12 - OPERATING LEASES

The Educational Service Center is obligated under certain leases accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. During 2020, expenditures for the operating leases totaled \$ 15,018.

The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2020.

Year ending June 30,	Amount
2021	\$ 6,215
2022	666
	<u>\$ 6,881</u>

NOTE 13 - LONG-TERM OBLIGATIONS

Changes in long-term obligations during fiscal year 2020 are as follows:

	Balance June 30, 2019	Increase	Decrease	Balance June 30, 2020	Amounts Due In One Year
Net pension liability:					
STRS	\$ 10,364,515	\$ 282,732	\$ -	\$ 10,647,247	\$ -
SERS	2,481,544	150,419	-	2,631,963	-
Total net pension liability	<u>12,846,059</u>	<u>433,151</u>	<u>-</u>	<u>13,279,210</u>	<u>-</u>
Net OPEB liability					
SERS	1,219,272	-	90,245	1,129,027	
Total net OPEB liability	<u>1,219,272</u>	<u>-</u>	<u>90,245</u>	<u>1,129,027</u>	<u>-</u>
Compensated absences	613,423	48,195	170,874	490,744	189,097
	<u>\$ 14,678,754</u>	<u>\$ 481,346</u>	<u>\$ 261,119</u>	<u>\$ 14,898,981</u>	<u>\$ 189,097</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their services.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 14 - CONTINGENCIES

A. GRANTS

The Educational 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2020.

B. LITIGATION

The Educational Service Center is not a part of or involved in any legal proceedings at this time.

NOTE 15 - TRANSFERS

During the year ended June 30, 2020, the General Fund transferred \$ 899 to the SERCC Fund (an agency fund). The transfer was to cover expenditures.

NOTE 16 – INTERFUND ACTIVITIES

On the fund financial statements at June 30, 2020, interfund balances consisted of the following:

	Interfund Receivable	Interfund Payable
Major Funds:		
General Fund	\$ 91,006	\$ -
Non-major Funds:		
Miscellaneous state grants	-	20,457
Pubic school preschool	-	2,897
Limited english proficiency	-	2,389
IDEA	-	41,585
Title I	-	7,108
ECSE preschool	-	3,083
OTES state trainer	-	13,487
Total Non-major Funds	-	91,006
	<u>\$ 91,006</u>	<u>\$ 91,006</u>

General fund loans made to non-major governmental funds were made to support programs and projects and are scheduled to be repaid in the subsequent year.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLAN

A. NET PENSION LIABILITY

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

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

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

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

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

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLAN (continued)

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

Age and service requirements for retirement are as follows:

	Eligible to retire on or before August 1, 2017*	Eligible to retire on or after August 1, 2017
Full benefits	Age 65 with 5 years of service credit; or 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 thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent and none was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$ 189,200 for fiscal year 2020 which was 72 percent paid. The remainder is presented as due to other governments.

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS)

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLANS (continued)

C. PLAN DESCRIPTION - STATE TEACHERS RETIREMENT SYSTEM (STRS) (continued)

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

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2023 when retirement eligibility will be five years of qualifying service credit and age 60 or 30 years of service credit at any age.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS Ohio. 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 is deposited into a member's DC account and the remaining 2 percent is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 and after 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 Ohio 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 Ohio bearing the risk of investment gain or loss on the account. STRS Ohio has therefore included all three plan options in the GASB 68 schedules of employer allocations and pension amounts by employer.

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. New members must have at least 10 years of qualifying service credit to apply for disability benefits.

Eligible survivors of members who die before service retirement may qualify for monthly benefits. 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 Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2020, plan members were required to contribute 14 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent. None on the employer contribution rate was used to fund the health care fund.

The Educational Service Center's contractually required contribution to STRS was \$ 801,040 for fiscal year 2020 which was 86 percent paid. The remainder is presented as due to other governments.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net pension liability	\$ 2,631,963	\$ 10,647,247	\$ 13,279,210
Pension expense	\$ 240,228	\$ 1,403,624	\$ 1,643,852
Proportion of the net pension liability			
Prior measurement date	0.043329%	0.047138%	
Proportion of the net pension liability			
Current measurement date	<u>0.043989%</u>	<u>0.048146%</u>	
	<u>0.000660%</u>	<u>0.001009%</u>	

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 66,741	\$ 86,686	\$ 153,427
Change in assumptions	-	1,250,725	1,250,725
Change in proportionate share and difference between employer and proportionate share of contributions	41,595	198,260	239,855
Educational Service Center contributions subsequent to the measurement date	<u>189,200</u>	<u>801,040</u>	<u>990,240</u>
Total deferred outflows of resources	<u>\$ 297,536</u>	<u>\$ 2,336,711</u>	<u>\$ 2,634,247</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ -	\$ 46,090	\$ 46,090
Net difference between projected and actual earnings on pension plan investments	33,784	520,380	554,164
Change in proportionate share and difference between employer and proportionate share of contributions	-	<u>281,257</u>	<u>281,257</u>
Total deferred inflows of resources	<u>\$ 33,784</u>	<u>\$ 847,727</u>	<u>\$ 881,511</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLANS (continued)

D. PENSION LIABILITIES, PENSION EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS (continued)

\$ 990,240 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	\$ 109,228	\$ 488,719	\$ 597,947
2022	(51,588)	123,515	71,927
2023	(2,248)	(26,765)	(29,013)
2024	19,160	102,475	121,635
	\$ 74,552	\$ 687,944	\$ 762,496

E. ACTUARIAL ASSUMPTIONS - SERS

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

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

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation are presented below:

Wage inflation	3.00 percent
Future salary increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment rate of return	7.50 percent net of investment expense, including inflation
Actuarial cost method	Entry age normal (Level Percent of Payroll)

The actuarial assumptions used were based on the results of an actuarial experience study for a 5 year period ended June 30, 2015.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS (continued)

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

The long-term return expectation for the Pension Plan Investments has been determined 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 averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	1.00%	0.50%
U.S. stocks	22.50%	4.75%
Non-U.S. stocks	22.50%	7.00%
Fixed income	19.00%	1.50%
Private equity	10.00%	8.00%
Real assets	15.00%	5.00%
Multi-asset strategies	10.00%	3.00%
	<u>100.00%</u>	

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

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

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Educational Service Center's proportionate share of the net pension liability	<u>\$ 3,688,321</u>	<u>\$ 2,631,963</u>	<u>\$ 1,746,074</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLANS (continued)

F. ACTUARIAL ASSUMPTIONS - STRS

The total pension liability in the June 30, 2019, 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	
Payroll increases		3.00 percent
Investment rate of return	7.45 percent, net of investment expenses, including inflation	
Discount rate of return		7.45 percent
Cost-of-living adjustments (COLA)		0.00 percent

Post-retirement 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. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Tables, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

<u>Asset Class</u>	<u>Target Allocation **</u>	<u>Long-term Expected Real Rate of Return *</u>
Domestic equity	28.00%	7.35%
International equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed income	21.00%	3.00%
Real estate	10.00%	6.00%
Liquidity reserves	1.00%	2.25%
	<u>100.00%</u>	

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 17 - DEFINED BENEFIT PENSION PLANS (continued)

F. ACTUARIAL ASSUMPTIONS – STRS (continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS Ohio's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following table presents the Educational Service Center's proportionate share of the net pension liability as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	\$ 15,559,766	\$ 10,647,247	\$ 6,488,549

Assumption and Benefit Changes Since the Prior Measurement Date – There were no changes in assumptions or benefit terms since the prior measurement date of June 30, 2018.

NOTE 18 – DEFINED BENEFIT OPEB PLANS

A. NET OPEB LIABILITY

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

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

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

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

A. NET OPEB LIABILITY (continued)

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

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

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS)

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, none of covered payroll was allocated 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 2020, this amount was \$ 19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

B. PLAN DESCRIPTION - SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) (continued)

For fiscal year 2020, the Educational Service Center's surcharge obligation was \$ 25,147. The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$ 25,147 for fiscal year 2020. All of this amount is reported as due to other governments.

C. 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 Ohio 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 Ohio. 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, 2020, STRS Ohio did not allocate any employer contributions to post-employment health care.

D. OPEB LIABILITIES/(ASSET), OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

The net OPEB liability/(asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability/(asset) was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net OPEB liability/(asset) was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate share of the net OPEB liability/(asset)	\$ 1,129,027	\$ (797,417)	\$ 331,610
OPEB expense	\$ 44,304	\$ (249,767)	\$ (205,463)
Proportion of the net OPEB liability/(asset)			
Prior measurement date	0.043949%	0.047138%	
Current measurement date	<u>0.044896%</u>	<u>0.048146%</u>	
Change in proportionate share	<u>0.000946%</u>	<u>0.001008%</u>	

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

D. OPEB LIABILITIES/(ASSET), OPEB EXPENSE, AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB (continued)

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred outflows of resources			
Differences between expected and actual experience	\$ 16,573	\$ 72,292	\$ 88,865
Change in assumptions	82,463	16,761	99,224
Net difference between projected and actual earnings on pension plan investments	2,710	-	2,710
Change in proportionate share and difference between employer and proportionate share of contributions	51,952	16,171	68,123
Educational Service Center contributions subsequent to the measurement date	25,147	-	25,147
Total deferred outflows of resources	<u>\$ 178,845</u>	<u>\$ 105,224</u>	<u>\$ 284,069</u>
Deferred inflows of resources			
Differences between expected and actual experience	\$ 248,040	\$ 40,570	\$ 288,610
Change in assumptions	63,267	874,275	937,542
Net difference between projected and actual earnings on pension plan investments	-	50,083	50,083
Change in proportionate share and difference between employer and proportionate share of contributions	-	30,629	30,629
Total deferred inflows of resources	<u>\$ 311,307</u>	<u>\$ 995,557</u>	<u>\$ 1,306,864</u>

\$ 25,147 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	\$ (50,999)	\$ (195,981)	\$ (246,980)
2022	(23,759)	(195,981)	(219,740)
2023	(22,964)	(175,908)	(198,872)
2024	(23,094)	(168,864)	(191,958)
2025	(24,720)	(156,861)	(181,581)
Thereafter	(12,073)	3,262	(8,811)
	<u>\$ (157,609)</u>	<u>\$ (890,333)</u>	<u>\$ (1,047,942)</u>

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation are presented below:

Wage inflation	3.00 percent
Wage increases	3.50 percent to 18.20 percent
Investment rate of return	7.50 percent net of investments expense, including inflation
Municipal bond index rate:	
Prior measurement date	3.62 percent
Measurement date	3.13 percent
Single equivalent interest rate, net of plan investment expense, including price inflation	
Prior measurement date	3.70 percent
Measurement date	3.22 percent
Medical trend assumptions	
Pre-medicare	7.00 to 4.75 percent
Medicare	5.25 to 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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS (continued)

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	1.00%	0.50%
U.S. stocks	22.50%	4.75%
Non-U.S. stocks	22.50%	7.00%
Fixed income	19.00%	1.50%
Private equity	10.00%	8.00%
Real assets	15.00%	5.00%
Multi-asset strategies	10.00%	3.00%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (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.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

E. ACTUARIAL ASSUMPTIONS – SERS (continued)

Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
Educational Service Center's proportionate share of the net OPEB liability	\$ 1,370,425	\$ 1,129,027	\$ 937,088

	1% Decrease (6.00% decreasing to 3.75%)	Current Trend Rate (7.00% decreasing to 4.75%)	1% Increase (8.00% decreasing to 5.75%)
Educational Service Center's proportionate share of the net OPEB liability	\$ 904,580	\$ 1,129,027	\$ 1,426,815

F. ACTUARIAL ASSUMPTIONS – STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2019 actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment rate of return	7.45 percent, net of investment expenses, including inflation
Payroll increases	3 percent
Discount rate of return	7.45 percent
Health care cost trends	
Medical	
Pre-medicare	5.87 percent initial, 4.00 percent ultimate
Medicare	4.93 percent initial, 4.00 percent ultimate
Prescription drug	
Pre-medicare	7.73 percent initial, 4.00 percent ultimate
Medicare	9.62 percent initial, 4.00 percent ultimate

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

F. ACTUARIAL ASSUMPTIONS – STRS (continued)

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, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

<u>Asset Class</u>	<u>Target Allocation **</u>	<u>Long-term Expected Real Rate of Return *</u>
Domestic equity	28.00%	7.35%
International equity	23.00%	7.55%
Alternatives	17.00%	7.09%
Fixed income	21.00%	3.00%
Real estate	10.00%	6.00%
Liquidity reserves	1.00%	2.25%
	<u>100.00%</u>	

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

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

Discount Rate - The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was not projected to be sufficient to make all projected future benefit payments of current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was applied to all periods of projected health care costs to determine the total OPEB liability as of June 30, 2019.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 18 – DEFINED BENEFIT OPEB PLANS (continued)

F. ACTUARIAL ASSUMPTIONS – STRS (continued)

Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount and Health Care Cost Trend Rate -The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset 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 asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Educational Service Center's proportionate share of the net OPEB asset	<u>\$ (680,437)</u>	<u>\$ (797,417)</u>	<u>\$ (895,770)</u>

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	<u>\$ (904,234)</u>	<u>\$ (797,417)</u>	<u>\$ (666,592)</u>

Assumption Changes Since the Prior Measurement Date – There were no changes in assumptions since the prior measurement date of Jun 30, 2018.

Benefit Term Changes Since the Prior Measurement Date – There was no change to the claims cost process. Claim curves were trended to the fiscal year ending Jun 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

NOTE 19 – COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. The Educational Service Center's investment portfolio and the investments of the pension and other employee benefit plan in which the Educational Service Center participates may incur a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of the individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Educational Service Center's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

REQUIRED SUPPLEMENTARY INFORMATION

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
 LAST SEVEN FISCAL YEARS (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Educational Service Center's proportion of the net pension liability	0.043989%	0.043329%	0.042417%	0.041638%
Educational Service Center's proportionate share of the net pension liability	\$ 2,631,963	\$ 2,481,544	\$ 2,534,298	\$ 3,047,481
Educational Service Center's covered payroll	\$ 1,497,578	\$ 1,524,200	\$ 1,335,907	\$ 1,522,064
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered payroll	175.75%	162.81%	189.71%	200.22%
Plan fiduciary net position as a percentage of the total pension liability	70.85%	71.36%	69.50%	62.98%

(1) Information prior to 2014 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>
0.047605%	0.048716%	0.048716%
\$ 2,716,370	\$ 2,465,489	\$ 2,896,984
\$ 1,427,668	\$ 1,423,853	\$ 1,483,302
190.27%	173.16%	195.31%
69.16%	71.70%	65.52%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
 THE NET PENSION LIABILITY
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST SEVEN FISCAL YEARS (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Educational Service Center's proportion of the net pension liability	0.048146%	0.047138%	0.046789%	0.047791%
Educational Service Center's proportionate share of the net pension liability	\$ 10,647,247	\$ 10,364,515	\$ 11,114,768	\$ 15,997,108
Educational Service Center's covered payroll	\$ 5,728,314	\$ 5,424,886	\$ 5,240,064	\$ 5,310,278
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered payroll	185.87%	191.05%	212.11%	301.25%
Plan fiduciary net position as a percentage of the total pension liability	77.40%	77.31%	75.30%	66.80%

(1) Information prior to 2014 is not available. Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>
0.051327%	0.050056%	0.050056%
\$ 14,185,268	\$ 12,175,332	\$ 14,503,176
\$ 5,405,349	\$ 5,148,008	\$ 5,240,139
262.43%	236.51%	276.77%
72.10%	74.70%	69.30%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S CONTRIBUTIONS – PENSION
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 189,200	\$ 202,173	\$ 205,767	\$ 187,027
Contributions in relation to the contractually required contribution	<u>(189,200)</u>	<u>(202,173)</u>	<u>(205,767)</u>	<u>(187,027)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center covered payroll	\$ 1,351,429	\$ 1,497,578	\$ 1,524,200	\$ 1,335,907
Contributions as a percentage of covered payroll	14.00%	13.50%	13.50%	14.00%

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 213,089	\$ 188,167	\$ 197,346	\$ 205,289	\$ 332,445	\$ 347,085
<u>(213,089)</u>	<u>(188,167)</u>	<u>(197,346)</u>	<u>(205,289)</u>	<u>(332,445)</u>	<u>(347,085)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,522,064	\$ 1,427,668	\$ 1,423,853	\$ 1,483,302	\$ 2,471,707	\$ 2,761,218
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S CONTRIBUTIONS – PENSION
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ 801,040	\$ 801,964	\$ 759,484	\$ 733,609
Contributions in relation to the contractually required contribution	<u>(801,040)</u>	<u>(801,964)</u>	<u>(759,484)</u>	<u>(733,609)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center covered payroll	\$ 5,721,714	\$ 5,728,314	\$ 5,424,886	\$ 5,240,064
Contributions as a percentage of covered payroll	14.00%	14.00%	14.00%	14.00%

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 743,439	\$ 756,749	\$ 669,241	\$ 681,218	\$ 668,137	\$ 680,765
<u>(743,439)</u>	<u>(756,749)</u>	<u>(669,241)</u>	<u>(681,218)</u>	<u>(668,137)</u>	<u>(680,765)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,310,278	\$ 5,405,349	\$ 5,148,008	\$ 5,240,139	\$ 5,139,518	\$ 5,236,657
14.00%	14.00%	13.00%	13.00%	13.00%	13.00%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
 THE NET OPEB LIABILITY
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	2020	2019	2018	2017
Educational Service Center's proportion of the net OPEB liability	0.044896%	0.043949%	0.043127%	0.042243%
Educational Service Center's proportionate share of the net OPEB liability	\$ 1,129,027	\$ 1,219,272	\$ 1,157,413	\$ 1,204,090
Educational Service Center's covered payroll	\$ 1,497,578	\$ 1,524,200	\$ 1,335,907	\$ 1,522,064
Educational Service Center's proportionate share of the net OPEB liability as a percentage of its covered payroll	75.39%	79.99%	86.64%	79.11%
Plan fiduciary net position as a percentage of the total OPEB liability	15.57%	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

See accompanying notes to the required supplementary information.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S PROPORTIONATE SHARE OF
 THE NET OPEB LIABILITY/(ASSET)
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST FOUR FISCAL YEARS (1)

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Educational Service Center's proportion of the net OPEB liability/(asset)	0.048146%	0.047138%	0.046789%	0.047791%
Educational Service Center's proportionate share of the net OPEB liability/(asset)	\$ (797,417)	\$ (757,454)	\$ 1,825,524	\$ 2,555,878
Educational Service Center's covered payroll	\$ 5,728,314	\$ 5,424,886	\$ 5,240,064	\$ 5,310,278
Educational Service Center's proportionate share of the net OPEB liability as a percentage of its covered payroll	-13.92%	-13.96%	34.84%	48.13%
Plan fiduciary net position as a percentage of the total OPEB liability	174.70%	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available. This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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

See accompanying notes to the required supplementary information.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S CONTRIBUTIONS - OPEB
 SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution (1)	\$ 25,147	\$ 33,949	\$ 24,741	\$ 23,893
Contributions in relation to the contractually required contribution	<u>(25,147)</u>	<u>(33,949)</u>	<u>(24,741)</u>	<u>(23,893)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center covered payroll	\$ 1,351,429	\$ 1,497,578	\$ 1,524,200	\$ 1,335,907
OPEB contributions as a percentage of covered payroll	1.86%	2.27%	1.62%	1.79%

(1) Includes Surcharge

See accompanying notes to the required supplementary information.

<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 21,581	\$ 36,097	\$ 26,825	\$ 26,853	\$ 59,284	\$ 81,040
<u>(21,581)</u>	<u>(36,097)</u>	<u>(26,825)</u>	<u>(26,853)</u>	<u>(59,284)</u>	<u>(81,040)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 1,522,064	\$ 1,427,668	\$ 1,423,853	\$ 1,483,302	\$ 2,471,707	\$ 2,761,218
1.42%	2.53%	1.88%	1.81%	2.40%	2.93%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE EDUCATIONAL SERVICE CENTER'S CONTRIBUTIONS - OPEB
 STATE TEACHERS RETIREMENT SYSTEM OF OHIO

LAST TEN FISCAL YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Contractually required contribution	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Educational Service Center covered payroll	\$ 5,721,714	\$ 5,728,314	\$ 5,424,886	\$ 5,240,064
OPEB contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%

See accompanying notes to the required supplementary information.

2016	2015	2014	2013	2012	2011
\$ -	\$ -	\$ 51,480	\$ 52,401	\$ 51,395	\$ 52,366
-	-	(51,480)	(52,401)	(51,395)	(52,366)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,310,278	\$ 5,405,349	\$ 5,148,008	\$ 5,240,139	\$ 5,139,518	\$ 5,236,657
0.00%	0.00%	1.00%	1.00%	1.00%	1.00%

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 1 – NET PENSION LIABILITY

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms – Members, or their survivors, retiring prior to January 1, 2018, receive a COLA increase of 3 percent of their base benefit on the anniversary of their initial date of retirement. Members, or their survivors, retiring on and after January 1, 2018, receive a COLA increase on each anniversary of their initial date of retirement equal to the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0 percent, nor greater than 2.5 percent. COLAs are suspended for calendar years 2018, 2019, and 2020. Members, or their survivors, retiring on and after April 1, 2018, will have their COLA delayed for three years following their initial date of retirement.

Changes in assumptions – The COLA was changed from a fixed 3.00 percent to a COLA that is indexed to CPI-W not greater than 2.50 percent with a floor of 0.0 percent beginning January 1, 2018. In addition, with the authority granted the Board under HB49, the Board has enacted a three year COLA delay for benefit recipients in calendar years 2018, 2019 and 2020.

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefits terms - Effective July 1, 2017, the COLA was reduced to zero.

Changes in assumptions - There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for fiscal years 2014-2018. See the notes to the basic financial statements for the methods and assumptions in this calculation.

NOTE 2 – NET OPEB LIABILITY

A. SCHOOL EMPLOYEES RETIREMENT SYSTEM (SERS) OF OHIO

Changes in benefit terms and funding terms – There have been no changes to the benefit provisions.

Changes in assumptions – Medical trend rates have been adjusted to reflect premium decreases.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 – NET OPEB LIABILITY (continued)

B. STATE TEACHERS RETIREMENT SYSTEM (STRS) OF OHIO

Changes in benefit terms and funding terms – See the notes to the basic financial statements for the benefit term changes since the prior measurement date.

Changes in assumptions – There were no changes in assumptions since the prior measurement date.

SUPPLEMENTARY INFORMATION

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET BASIS (NON-GAAP) AND ACTUAL – GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

GENERAL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive (Negative)
Revenues and other financing sources	\$ 9,478,965	\$ 9,478,965	\$ 10,044,235	\$ 565,270
Expenditures and other financing uses	10,232,640	9,626,436	9,626,436	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(753,675)	(147,471)	417,799	565,270
Fund balance, beginning of year	3,100,657	3,100,657	3,100,657	-
Prior year encumbrances	145,746	145,746	145,746	-
Fund balance, end of year	<u>\$ 2,492,728</u>	<u>\$ 3,098,932</u>	<u>\$ 3,664,202</u>	<u>\$ 565,270</u>

See accompanying notes to the supplementary information.

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

NOTES TO THE SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - BUDGETARY DATA

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within funds.

The estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Educational Service Center Treasurer. The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts in the amended certificate that was in effect at the time the final appropriations were passed by the Board.

The appropriation resolution is subject to amendment by the Board throughout the year with the restriction that appropriations may not exceed estimated revenues by fund. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal year. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures rather than restricted, committed or assigned fund balance (GAAP basis).
4. Some funds are included in the General Fund (GAAP basis), but have a separate legally adopted budget (budget basis).

EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
 NOTES TO THE SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2020

NOTE 1 - BUDGETARY DATA (continued)

BUDGETARY BASIS OF ACCOUNTING (continued)

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

Net Change in Fund Balance	General Fund
Budget basis	\$ 417,799
Adjustments, increase (decrease)	
Revenue accruals	8,508
Expenditure accruals	(122,831)
Encumbrances	57,494
Funds budgeted separately	15,513
GAAP basis, as reported	\$ 376,483

**EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(C) PASS-THROUGH GRANT NUMBER	(A) CASH FEDERAL DISBURSEMENTS
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH THE OHIO DEPARTMENT OF EDUCATION			
Title I Grants to Local Educational Agencies	84.010	2019	\$ 3,609
Title I Grants to Local Educational Agencies	84.010	2020	154,199
Title I Grants to Local Educational Agencies - Priority School Support	84.010	2019	1,297
Title I Grants to Local Educational Agencies - Priority School Support	84.010	2020	36,964
<i>Total Title I Grants to Local Educational Agencies</i>			<u>196,069</u>
Special Education Cluster (IDEA)			
Special Education_Grants to States	84.027	2019	53,971
Special Education_Grants to States	84.027	2020	965,046
<i>Total Special Education _Grants to States</i>			<u>1,019,017</u>
Special Education_Preschool Grants	84.173	2019	805
Special Education_Preschool Grants	84.173	2020	58,910
Special Education_Preschool Grants - Early Learning Discretionary	84.173	2019	2,881
Special Education_Preschool Grants - Early Learning Discretionary	84.173	2020	68,349
<i>Total Special Education_Preschool Grants</i>			<u>130,945</u>
Total Special Education Cluster (IDEA)			<u>1,149,962</u>
Special Education - State Personnel Development	84.323	2020	10,781
English Language Acquisition State Grants	84.365	2019	1,554
English Language Acquisition State Grants	84.365	2020	16,787
<i>Total English Language Acquisition State Grants</i>			<u>18,341</u>
Supporting Effective Instruction State Grants - OTES	84.367	2020	13,487
Total U.S. Department of Education			<u>1,388,640</u>
Total Federal Financial Assistance			<u>\$ 1,388,640</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) This schedule includes the federal award activity under programs of the federal government for the fiscal year ended June 30, 2020, and is prepared in accordance with the cash basis of accounting. 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 Educational Service Center of Lorain County it is not intended to and does not present the financial position or changes in net position.
- (B) CFR 200.414 allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The Educational Service Center of Lorain County has not elected to use the 10% de minimis indirect cost rate.
- (C) OAKS did not assign pass through numbers for fiscal year 2020 for the grants passed through the Ohio Department of Education.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Educational Service Center of Lorain County
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Governing Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Educational Service Center of Lorain County, Lorain County, Ohio, as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Educational Service Center of Lorain County's basic financial statements, and have issued our report thereon dated December 21, 2020, wherein we noted as described in Note 19 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Educational Service Center of Lorain County's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center of Lorain County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center of Lorain County's internal control.

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

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

Educational Service Center of Lorain County

Lorain County

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

Compliance and Other Matters

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

Purpose of this Report

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



Julian & Grube, Inc.

December 21, 2020

**Independent Auditor's Report on Compliance for the Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Educational Service Center of Lorain County
Lorain County
1885 Lake Avenue
Elyria, Ohio 44035

To the Governing Board:

Report on Compliance for the Major Federal Program

We have audited the Educational Service Center of Lorain County's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Educational Service Center of Lorain County's major federal program for the fiscal year ended June 30, 2020. The Educational Service Center of Lorain County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings.

Management's Responsibility

Management is responsible for compliance 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 express an opinion on compliance for the Educational Service Center of Lorain County's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Educational Service Center of Lorain County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on the Major Federal Program

In our opinion, the Educational Service Center of Lorain County, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the fiscal year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Educational Service Center of Lorain County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Educational Service Center of Lorain County's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Educational Service Center of Lorain County'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, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 was not designed to 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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Julian & Grube, Inc.
December 21, 2020

**EDUCATIONAL SERVICE CENTER OF LORIAN COUNTY
LORAIN COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2020**

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

**2. FINDING RELATED TO THE BASIC FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

OHIO AUDITOR OF STATE KEITH FABER



EDUCATIONAL SERVICE CENTER OF LORAIN COUNTY

LORAIN COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 2/9/2021

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

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