



OHIO AUDITOR OF STATE
KEITH FABER



**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY
JUNE 30, 2021**

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INDEPENDENT AUDITOR'S REPORT

Midwest Regional Educational Service Center
Logan County
1973 State Route 47 W
Bellefontaine, Ohio 43311

To the Governing Board:

Report on the Financial Statements

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, Ohio (the Center), as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, as of June 30, 2021, and the respective changes in modified cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Emphasis of Matter

As discussed in Note 13 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center. We did not modify our opinion regarding this matter.

Other Matters

Supplementary Information

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

The Budgetary Comparison Schedule – General Fund is not a required part of the financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2022, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

January 14, 2022

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**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2021

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents	\$ 7,831,895
Investments	30,904
Total assets	7,862,799
 Net cash position:	
Restricted for:	
Scholarships	153,997
Locally funded programs	106,454
Alternative schools	379,160
Student activities	8,611
Other purposes	2,321
Unrestricted	7,212,256
Total cash net position	\$ 7,862,799

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>Cash Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements) Receipts and Changes in Net Cash Position Governmental Activities</u>
		<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction:				
Regular	\$ 1,101,415	\$ 100,497	\$ 849,392	\$ (151,526)
Special	4,612,047	4,137,684	413,056	(61,307)
Other	3,310	-	-	(3,310)
Support services:				
Pupil	3,226,038	3,093,170	133,227	359
Instructional staff	1,026,060	815,685	202,351	(8,024)
Board of education	104,456	-	-	(104,456)
Administration	1,129,007	989,697	209,490	70,180
Fiscal	363,567	415,169	1,458	53,060
Business	5,013	-	-	(5,013)
Pupil transportation	20,240	972	-	(19,268)
Central	311,293	255,167	48,508	(7,618)
Other non-instructional services	9,200	-	24,220	15,020
Extracurricular activities	26,666	425	2,260	(23,981)
Debt service:				
Principal retirement	19,189	-	-	(19,189)
Interest and fiscal charges	7,289	-	-	(7,289)
Totals	<u>\$ 11,964,790</u>	<u>\$ 9,808,466</u>	<u>\$ 1,883,962</u>	<u>(272,362)</u>
General cash receipts:				
Grants and entitlements not restricted to specific programs				626,529
Investment earnings				27,731
Miscellaneous				21,265
Total general cash receipts				<u>675,525</u>
Change in net cash position				403,163
Net cash position at beginning of year				<u>7,459,636</u>
Net cash position at end of year				<u>\$ 7,862,799</u>

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2021

	General	Nonmajor Governmental Funds	Total Governmental Funds
Assets:			
Equity in pooled cash and cash equivalents	\$ 6,734,436	\$ 1,097,459	\$ 7,831,895
Investments	-	30,904	30,904
Total assets	\$ 6,734,436	\$ 1,128,363	\$ 7,862,799
Fund cash balances:			
Nonspendable:			
Unclaimed monies	2,321	-	2,321
Scholarships	-	20,000	20,000
Restricted:			
Extracurricular	-	8,611	8,611
Scholarships	-	133,997	133,997
Alternative schools	-	379,160	379,160
Other purposes	-	106,454	106,454
Committed:			
Other purposes	-	480,141	480,141
Assigned:			
Student instruction	27,041	-	27,041
Student and staff support	445,749	-	445,749
Unassigned	6,259,325	-	6,259,325
Total fund cash balances	\$ 6,734,436	\$ 1,128,363	\$ 7,862,799

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash receipts:			
Intergovernmental	\$ 626,529	\$ 1,880,539	\$ 2,507,068
Investment earnings	27,731	21,145	48,876
Tuition and fees	4,385,784	-	4,385,784
Extracurricular	1,300	-	1,300
Contract services	4,963,109	148,199	5,111,308
Contributions and donations	23,636	42,025	65,661
Miscellaneous	158,940	89,016	247,956
Total cash receipts	<u>10,187,029</u>	<u>2,180,924</u>	<u>12,367,953</u>
Cash disbursements:			
Current:			
Instruction:			
Regular	172,187	929,228	1,101,415
Special	4,091,927	520,120	4,612,047
Other	3,310	-	3,310
Support services:			
Pupil	3,099,494	126,544	3,226,038
Instructional staff	803,303	222,757	1,026,060
Board of education	104,456	-	104,456
Administration	838,991	290,016	1,129,007
Fiscal	362,109	1,458	363,567
Business	5,013	-	5,013
Pupil transportation	19,489	751	20,240
Central	259,072	52,221	311,293
Other non-instructional services	-	9,200	9,200
Extracurricular activities	26,355	311	26,666
Debt service:			
Principal retirement	19,189	-	19,189
Interest and fiscal charges	7,289	-	7,289
Total cash disbursements	<u>9,812,184</u>	<u>2,152,606</u>	<u>11,964,790</u>
Excess of cash receipts over cash disbursements	<u>374,845</u>	<u>28,318</u>	<u>403,163</u>
Other financing sources (uses):			
Advances in	17,467	50,268	67,735
Advances (out)	(50,268)	(17,467)	(67,735)
Total other financing sources (uses)	<u>(32,801)</u>	<u>32,801</u>	<u>-</u>
Net change in fund cash balances	342,044	61,119	403,163
Fund cash balances at beginning of year	<u>6,392,392</u>	<u>1,067,244</u>	<u>7,459,636</u>
Fund cash balances at end of year	<u>\$ 6,734,436</u>	<u>\$ 1,128,363</u>	<u>\$ 7,862,799</u>

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUND
JUNE 30, 2021

	<u>Custodial</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 8,586
Total assets	<u>8,586</u>
Net position:	
Restricted for LPDC	8,586
Total net position	<u>\$ 8,586</u>

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

STATEMENT OF CHANGE IN FIDUCIARY NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	Custodial
Additions:	
Amounts received as fiscal agent	\$ 5,641
Total additions	5,641
Deductions:	
Distributions as fiscal agent	7,532
Total deductions	7,532
Change in net position	(1,891)
Net position at beginning of year	10,477
Net position at end of year	\$ 8,586

SEE ACCOMPANYING NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 1 - DESCRIPTION OF THE ENTITY

The Midwest Regional Educational Service Center (the "Center") is a political subdivision of the State of Ohio. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On March 4, 2014 the Shelby, Logan and Hardin Educational Service Centers approved a merger, which resulted in the Midwest Regional Educational Service Center. The Center began operations on July 1, 2014.

The Center supplies supervisory, special education, administrative, and other services to member school districts. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Board consists of 7 members elected by the voters. This Board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The Center is staffed by 83 non-certified and 109 certified employees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.B., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these modified cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)

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

The following organizations are described due to their relationship to the Center:

JOINTLY GOVERNED ORGANIZATIONS

Western Ohio Computer Organization (WOCO)

WOCO is a jointly governed organization composed of 27 school districts, 2 career centers, 3 educational service centers, 2 community schools, and 3 parochial schools. It was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to the administrative and instructional functions among member districts. Each of the governments of these schools supports WOCO based upon a per pupil charge dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months financial contributions. WOCO is governed by a Board of Directors consisting of superintendents of the members school districts. The degree of control exercised by any participating school district is limited to its representation on the board. In accordance with GASB Statements Nos. 14 and 61, the Center does not have an equity interest in WOCO as the residual interest in the net resources of an organization upon dissolution is not equivalent to an equity interest. Financial information can be obtained from Donn Walls, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

Southwestern Ohio Educational Purchasing Council (SOEPC)

The SOEPC is a purchasing council made up of over 130 school districts and boards of developmental disabilities in 18 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, of other assessments as established by the SOEPC. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts by the fiscal agent. Any district withdrawing from the SOEPC shall forfeit its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are paid primarily from the general fund. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Logan County Family and Children First Council

The Family and Children First Council provides services to multi-need youth in Logan County. Members of the council include but are not limited to the Logan County Board of Developmental Disabilities, Mental Health Board, Logan County Child Support Enforcement Agency, Alcohol, Drug and Mental Health Service Board, Logan County Head Start, Logan County Board of Health, Logan County Human Services, Midwest Regional Educational Service Center and the Ohio Department of Youth Services.

The operation of the Council is controlled by an advisory committee, which consists of a representative from each agency. Funding comes mainly from the State of Ohio. Financial information can be obtained from Veronica Brady, Executive Director, 1973 State Route 47 West PO Box 710, Bellefontaine, Ohio 43311.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)

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

Logan County Educational Foundation

The Logan County Education Foundation was established to secure and distribute contributions from individuals, corporations, and foundations for the benefit of students within the county. The Foundation promotes, sponsors, and encourages the pursuit of excellence in education for students. The Foundation is managed by a Board of Trustees composed of six trustees from each school district. These trustees are nominated by their local school boards including Bellefontaine City School District, Benjamin Logan Local School District, Indian Lake Local School District, and Riverside Local School District. The Executive Board is comprised of the Midwest Regional Educational Service Center Superintendent representing the three local school districts and the Bellefontaine City School District Superintendent representing the city school district. Financial information can be obtained by contacting Karen Sorreles, who serves as Managing Director, 1973 State Route 47, Bellefontaine, Ohio 43311. Karen Sorreles is an employee of the Center.

Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the participating school district's elected boards, which possesses its own budgeting and taxing authority. The Center has two Board members on the District's Board. To obtain financial information write to the Ohio Hi-Point Joint Vocational School District, Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

Upper Valley Career Center

The Upper Valley Career Center is a distinct political subdivision of the State of Ohio. The Career Center is operated under the direction a Board consisting of eleven representatives who are members of the Boards of Education of the participating school districts. One member is appointed from each of the following: Bradford Exempted Village School District, Covington Exempted Village School District, and Miami County Educational Service Center. Two members are appointed from the following City School Districts: Piqua, Sidney and Troy. The Center has two Board members on the career center's Board. To obtain financial information write to the Upper Valley Career Center, Anthony Fraley, who serves as Treasurer, at 8811 Career Drive, Piqua, Ohio 45356.

PUBLIC ENTITY RISK POOLS

Logan County School Employee Consortium

The Center participates in the Logan County School Employee Consortium (the "Consortium"), a public entity shared risk pool consisting of two local school districts, one joint vocational school district and the Center. The Center pays monthly premiums to the Consortium for employee medical benefits. The Consortium is responsible for the payment of all Consortium liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal. To obtain financial information write to Eric Adelsberger, who serves as Treasurer, at 2280 State Route 540, Bellefontaine, Ohio 43311.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating districts pay an enrollment fee to the GRP to cover the costs of administering the program.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)

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

Southwestern Ohio Educational Purchasing Council LFP (EPC-LFP)

The Center participates in the Southwestern Ohio Educational Purchasing Council LFP (Program), an insurance purchasing pool consisting of fifty-one school districts. The intent of the Program is to achieve the benefit of a reduced premium for the Center for its property and liability insurance by virtue of its grouping and representation with other participants in the Program.

The Program's business and affairs are conducted by an Executive Council of nine participation school administrators. Participation in the Program is by written application subject to acceptance by the Executive Council and the payment of an annual premium. The Administrator of the Program is Public Entity Marsh which coordinates management, administration, claims management, and actuarial studies of the Program. Insurance premiums are paid to the Purchasing Council. Financial information can be obtained from the EPC-LFP, 303 Corporate Center Dr., Suite 208, Vandalia, Ohio 45377.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the Center chooses to prepare its financial statements and notes on the modified cash basis of accounting. The modified cash basis of accounting is a comprehensive basis of accounting other than GAAP.

The Center's financial statements are prepared using the modified cash basis of accounting. This basis of accounting is similar to the cash receipts and disbursement basis. The Center recognizes revenues when received in cash rather than when earned and recognizes expenditures when paid rather than when a liability is incurred.

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

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

C. Fund Accounting

The Center uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The Center has no proprietary funds.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses on the sources, uses and balances of the current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The following is the Center's major governmental fund:

General fund - The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)

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

Other governmental funds of the Center are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center has no trust funds. The Center also acts in a trustee capacity as an agent for other organizations. The Center's custodial fund accounts for the Local Professional Development Committee (LPDC).

D. Basis of Presentation

Government-Wide Financial Statements - The statement of net position – modified cash basis and the statement of activities – modified cash basis display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The government-wide statement of activities compares disbursements with program receipts for each function or program of the Center's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts 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. Receipts which are not classified as program receipts are presented as general receipts of the Center. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the Center.

Fund Financial Statements - The Center segregates transactions related to certain 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 Center at a more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

E. Budgetary Process

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

In fiscal year 2004, the Center requirement to file budgetary information with the Ohio Department of Education was eliminated. Even though the budgetary process for the Center was discretionary, the Center continued to have its Board approve appropriations and estimated resources. The 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 with the exception of the general fund, which is at the one digit object code. Budgetary information for the general fund has been presented as supplementary information to the basic financial statements.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)

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

F. Cash and Investments

To improve cash management, cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Center's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the basic financial statements.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

During fiscal year 2021, investments were limited to common stock (see below), negotiable certificates of deposit, U.S. Government money market funds and the State Treasury Asset Reserve of Ohio (STAR Ohio). Nonparticipating investment contracts such as certificates of deposit are reported at cost.

During fiscal year 2021, the Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Center measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2021, 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 \$250 million, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

While common stock is not an allowable investment according to Ohio statute, the Center has been endowed with a gift of stock. No public funds were used to acquire the stock. The stock is reported at cost which is based on the initial acquisition prices.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless the Center has adopted a resolution authorizing interest to be credited to specific funds. Interest revenue credited to the general fund during fiscal year 2021 amounted to \$27,731, which includes \$4,874 assigned from other Center funds.

G. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements under the modified cash basis of accounting. Depreciation has not been reported for any capital assets.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

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

H. Inventory and Prepaid Items

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

I. Unpaid Vacation and Sick Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost sharing pension plans when they are paid.

K. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability and net OPEB asset, 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.

L. Long-Term Obligations

Capital lease obligations are not recognized as a liability in the financial statements under the modified cash basis of accounting. The Center is not permitted to obtain debt beyond capital lease obligations.

M. Fund Cash Balance

The Center reports classifications of fund cash balance based on the extent to which the Center is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The following categories are used:

Nonspendable - amounts that cannot be spent because they are either (a) not in spendable form or (b) legally required to be maintained intact.

Restricted - amounts that have constraints placed on the use of resources that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Center's highest level of decision-making authority, the Governing Board.

Assigned - amounts that are constrained by the Center's intent to be used for specific purpose, but are neither restricted nor committed. Assigned amounts include those approved through the Center's formal purchasing procedure by the Treasurer. Through the Center's purchasing policy, the Governing Board has given the Treasurer the authority to constrain monies for intended purposes.

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(CONTINUED)

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

Unassigned - residual fund balance within the general fund that is in spendable form that is not restricted, committed, or assigned.

The Center applies restricted resources first when a disbursement is incurred for purposes for which restricted and unrestricted fund cash balance is available. The Center considers committed, assigned, and unassigned fund cash balances, respectively, to be spent when disbursements are incurred for purposes for which any of the unrestricted fund cash balance classifications could be used.

N. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available.

O. Interfund Activity

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

A schedule of the Center's interfund transactions is presented in Note 5.

P. 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 Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2021.

Q. Fair Value

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2021, the Center has applied GASB Statement No. 95, "Postponement of the Effective Dates of Certain Authoritative Guidance." GASB Statement No. 95 provides temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. This objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

Certain provisions contained in the following pronouncements were scheduled to be implemented for the fiscal year ended June 30, 2021. Due to the implementation of GASB Statement No. 95, the effective dates of certain provisions contained in these pronouncements are postponed until the fiscal year ended June 30, 2022:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*

B. Compliance

Ohio Administrative Code Section 117-2-03(B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles. However, the Center prepared its basic financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying basic financial statements omit assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The Center can be fined and various other administrative remedies may be taken against the Center.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

3. Written repurchase agreements in the securities listed above provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty 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, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in items (1 or 2) above and repurchase agreements secured by such obligations, provided that investments in such securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool, the State Treasury Asset Reserve of Ohio (STAR Ohio); and
8. Certain banker's acceptances and commercial paper notes for a period not to exceed one-hundred-eighty days and two-hundred-seventy days, respectively, from the purchase date in an amount not to exceed forty percent of the interim monies available for investment at any one time if training requirements have been met.

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

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 Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the Center had \$175 in undeposited cash on hand which is included on the financial statements as part of "equity in pooled cash and cash equivalents".

B. Deposits with Financial Institutions

At June 30, 2021, the carrying amount of all Center deposits was \$1,842,302. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2021, \$1,485,231 of the Center's bank balance of \$1,846,505 was exposed to custodial risk as discussed below, while \$361,274 was covered by FDIC.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Center and deposited with a qualified trustee by the financial institution as security for repayment whose fair value at all times shall be at least 105 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total fair value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For fiscal year 2021, the Center's financial institutions did participate in the OPCS.

C. Investments

As of June 30, 2021, the Center had the following investments and maturities:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Investment Maturities</u>					<u>Indefinite</u>
			<u>6 months or less</u>	<u>7 to 12 months</u>	<u>13 to 18 months</u>	<u>19 to 24 months</u>		
Stock	\$ 30,904	\$ 687,387	\$ -	\$ -	\$ -	\$ -	\$ 687,387	
Negotiable CD's	900,000	904,462	100,825	503,692	99,986	199,959	-	
STAR Ohio	<u>5,098,004</u>	<u>5,098,004</u>	<u>5,098,004</u>	-	-	-	-	
Total	<u>\$ 6,028,908</u>	<u>\$ 6,689,853</u>	<u>\$ 5,198,829</u>	<u>\$ 503,692</u>	<u>\$ 99,986</u>	<u>\$ 199,959</u>	<u>\$ 687,387</u>	

The weighted average maturity of investments is 0.13 years.

The Center's investments in stock are valued using quoted market prices in active markets (Level 1 inputs). The Center's investments in negotiable certificates of deposit 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).

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The stock portfolio is in the name of the Center and is not subject to custodial credit risk. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Credit Risk: The Center's stocks were rated ranging from AA- to BB+, Aa2 to Ba2, and A- to BBB- by Standard & Poor's, Moody's Investor Services, and Fitch Ratings, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center's investment policy does not further limit its investment choices.

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NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2021:

<u>Investment type</u>	<u>Market Value</u>	<u>% to Total</u>
Stock	\$ 687,387	10.27
Negotiable CD's	904,462	13.52
STAR Ohio	<u>5,098,004</u>	<u>76.21</u>
Total	<u>\$ 6,689,853</u>	<u>100.00</u>

D. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2021:

<u>Cash and investments per note</u>	<u>Carrying Value</u>
Carrying amount of deposits	\$ 1,842,302
Investments	6,028,908
Cash on hand	<u>175</u>
Total	<u>\$ 7,871,385</u>
 <u>Cash and investments per statement of net position</u>	 <u>Carrying Value</u>
Governmental activities	\$ 7,862,799
Custodial fund	<u>8,586</u>
Total	<u>\$ 7,871,385</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund transactions for the year ended June 30, 2021, consisted of the following, as reported on the fund financial statements:

<u>Advances from general fund to:</u>	<u>Amount</u>
Nonmajor governmental funds	\$ 50,268
 <u>Advances from nonmajor governmental funds to:</u>	
General fund	<u>17,467</u>
Total	<u>\$ 67,735</u>

The primary purpose of the advances to the governmental funds is to cover costs in grant funds where the requested project cash requests were not received by June 30. These advances will be repaid once the anticipated revenues are received. All outstanding advances are expected to be repaid within one year.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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NOTE 5 - INTERFUND TRANSACTIONS - (Continued)

The advances to the general fund represent repayment of prior period advances made from the general fund to nonmajor governmental funds.

Interfund advances between governmental funds are eliminated on the government-wide financial statements; therefore, no advances are reported on the statement of activities.

NOTE 6 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2020, the Center entered into a capital lease for copiers. The terms of the lease agreement provide an option to purchase the copier.

Principal payments in fiscal year 2021 totaled \$19,189. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2021:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 26,478
2023	26,478
2024	26,478
2025	<u>13,239</u>
Total minimum lease payments	92,673
Less amount representing interest	<u>(12,076)</u>
Total	<u>\$ 80,597</u>

NOTE 7 - RISK MANAGEMENT

A. Comprehensive and Employee Health

The 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 Center has obtained risk management by traditional means of insuring through a commercial company. With the exception of a deductible, the risk of loss transfers entirely from the Center to the commercial company. The Center continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years. There has been no significant reduction in coverage.

B. Workers' Compensation

For fiscal year 2021, the Center participated in the Ohio School Board Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 2.A.). The intent of the GRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating members are calculated as one experience and a common premium rate is applied to all members in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

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(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS

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

Net Pension Liability/Net OPEB Liability/Asset

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

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

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

The net pension/net OPEB liability (asset) are not reported on the face of the financial statements, but rather are disclosed in the notes because of the use of the modified cash basis framework.

The remainder of this note includes the required pension disclosures. See Note 9 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

Plan Description - The 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.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

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

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. Beginning April 1, 2018, new benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. A three-year COLA suspension is in effect for all benefit recipients for the years 2018, 2019, and 2020. Upon resumption of the COLA, it will be indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent. In 2020, the Board of Trustees approved a 0.5 percent cost-of-living adjustment (COLA) for eligible retirees and beneficiaries in 2021.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Center is required to contribute 14% 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% for plan members and 14% 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, 2021, the allocation to pension, death benefits, and Medicare B was 14.0%. For fiscal year 2021, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Center's contractually required contribution to SERS was \$236,080 for fiscal year 2021.

Plan Description - State Teachers Retirement System (STRS)

Plan Description - Licensed teachers participate in STRS, 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 website at www.strsoh.org.

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans: a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined (CO) Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. 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 of their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% 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% of the 14% member rate goes to the DC Plan and the remaining 2% 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 service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 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 plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2021, plan members were required to contribute 14% of their annual covered salary. The Center was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2021 contribution rates were equal to the statutory maximum rates.

The Center's contractually required contribution to STRS was \$767,913 for fiscal year 2021.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Net Pension Liability

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the projected contributions of all participating entities.

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.04396710%	0.03575635%	
Proportion of the net pension liability current measurement date	<u>0.04723790%</u>	<u>0.04290859%</u>	
Change in proportionate share	<u>0.00327080%</u>	<u>0.00715224%</u>	
Proportionate share of the net pension liability	\$ 3,124,414	\$ 10,382,352	\$ 13,506,766

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2020, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%
Investment rate of return	7.50% net of investment expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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(CONTINUED)

NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

For 2020, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00 %	1.85 %
US Stocks	22.50	5.75
Non-US Stocks	22.50	6.50
Fixed Income	19.00	2.85
Private Equity	12.00	7.60
Real Assets	17.00	6.60
Multi-Asset Strategies	5.00	6.65
Total	<u>100.00 %</u>	

Discount Rate - The total pension liability was calculated using the discount rate of 7.50%. 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 earnings were calculated using the long-term assumed investment rate of return (7.50%). 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 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%, 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%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease	Current Discount Rate	1% Increase
Center's proportionate share of the net pension liability	\$ 4,280,066	\$ 3,124,414	\$ 2,154,800

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2020, actuarial valuation are presented below:

	July 1, 2020
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Discount rate of return	7.45%
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.00%

For the July 1, 2020, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2020 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:

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

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

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NOTE 8 - DEFINED BENEFIT PENSION PLANS - (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2020. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2020.

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

	1% Decrease	Current Discount Rate	1% Increase
Center's proportionate share of the net pension liability	\$ 14,782,662	\$ 10,382,352	\$ 6,653,456

NOTE 9 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

See Note 8 for a description of the net OPEB liability (asset).

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description - The 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 Annual Comprehensive Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

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% of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2021, SERS did not allocate any employer contributions to post-employment health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service credit was earned. For fiscal year 2021, this amount was \$23,000. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2021, the Center's surcharge obligation was \$31,164.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contractually required contribution to SERS was \$31,164 for fiscal year 2021.

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, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2021, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2020, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The Center's proportion of the net OPEB liability/asset was based on the Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.04506090%	0.03575635%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.04895790%</u>	<u>0.04290859%</u>	
Change in proportionate share	<u>0.00389700%</u>	<u>0.00715224%</u>	
Proportionate share of the net OPEB liability	\$ 1,064,015	\$ -	\$ 1,064,015
Proportionate share of the net OPEB asset	\$ -	\$ (754,118)	\$ (754,118)

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.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2020 are presented below:

Inflation	3.00%
Wage Increases	3.50% to 18.20%
Investment rate of return	7.50% net of investment expense, including inflation
Municipal bond index rate:	
Measurement date	2.45%
Prior measurement date	3.13%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	2.63%
Prior measurement date	3.22%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%

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

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

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

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00 %	1.85 %
US Stocks	22.50	5.75
Non-US Stocks	22.50	6.50
Fixed Income	19.00	2.85
Private Equity	12.00	7.60
Real Assets	17.00	6.60
Multi-Asset Strategies	5.00	6.65
Total	<u>100.00 %</u>	

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2020 was 2.63%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.22%. 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% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% 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 2.45%, as of June 30, 2020 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.13% was used as of June 30, 2019. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

Sensitivity of the 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 (1.63%) and higher (3.63%) than the current discount rate (2.63%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate (7.00% decreasing to 4.75%).

	1% Decrease	Current Discount Rate	1% Increase
Center's proportionate share of the net OPEB liability	\$ 1,302,328	\$ 1,064,015	\$ 874,557
	1% Decrease	Current Trend Rate	1% Increase
Center's proportionate share of the net OPEB liability	\$ 837,831	\$ 1,064,015	\$ 1,366,482

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2020, actuarial valuation, compared with June 30, 2019, are presented below:

	June 30, 2020		June 30, 2019	
	Initial	Ultimate	Initial	Ultimate
Inflation	2.50%		2.50%	
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65	
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation	
Payroll increases	3.00%		3.00%	
Cost-of-living adjustments (COLA)	0.00%		0.00%	
Discount rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
Medical				
Pre-Medicare	5.00%	4.00%	5.87%	4.00%
Medicare	-6.69%	4.00%	4.93%	4.00%
Prescription Drug				
Pre-Medicare	6.50%	4.00%	7.73%	4.00%
Medicare	11.87%	4.00%	9.62%	4.00%

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

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

Actuarial assumptions used in the June 30, 2020 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - There were no changes in assumptions since the prior measurement date of June 30, 2019.

Benefit Term Changes Since the Prior Measurement Date - There was no change to the claims costs process. Claim curves were updated to reflect the projected fiscal year end 2021 premium based on June 30, 2020 enrollment distribution. The non-Medicare subsidy percentage was increased effective January 1, 2021 from 1.984% to 2.055% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2021. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the AMA Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed indefinitely.

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NOTE 9 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2020. 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 projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2020.

Sensitivity of the Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2020, calculated using the current period discount rate assumption of 7.45%, 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%) or one percentage point higher (8.45%) 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.

	1% Decrease	Current Discount Rate	1% Increase
Center's proportionate share of the net OPEB asset	\$ (656,132)	\$ (754,118)	\$ (837,256)
	1% Decrease	Current Trend Rate	1% Increase
Center's proportionate share of the net OPEB asset	\$ (832,095)	\$ (754,118)	\$ (659,130)

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
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(CONTINUED)

NOTE 10 - CONTINGENCIES

Grants

The Center receives significant financial assistance from numerous federal, State and local 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

State Foundation

For fiscal year 2021, foundation funding was based on the annualized full-time equivalent (FTE) enrollment of each student. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Center, which can extend past the fiscal year-end. As of the date of this report, additional ODE adjustments for fiscal year 2021 are finalized. As a result, the Center is due \$2,137. This amount is not reported on the financial statements.

NOTE 11 - OTHER COMMITMENTS

The Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year-end are reservations of fund balance for subsequent-year expenditures and may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the Center's commitments for encumbrances in the governmental funds were as follows:

<u>Fund Type</u>	<u>Year-End Encumbrances</u>
General fund	\$ 135,635
Other governmental	<u>304,207</u>
Total	<u>\$ 439,842</u>

NOTE 12 - OPERATING LEASES - LESSEE DISCLOSURE

The Center entered into a lease with the Shelby County Commissioners for approximately 3,008 square feet of building space. The lease requires monthly payments of \$1,300.

The Center entered into a lease with the Western Ohio Computer Organization (WOCO) for one meeting room and two separate offices. The lease requires rent of \$2,400 per 12-month period to be paid in one annual lump sum.

The Center entered into a lease with the Logan County Board of Developmental Disabilities for 908 square feet of office space. The lease requires monthly payments of \$635.

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(CONTINUED)

NOTE 13 - COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June of 2021 while the national state of emergency continues. During fiscal year 2021, the Center received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Additional funding has been made available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

NOTE 14 – SUBSEQUENT EVENT

For fiscal year 2022, foundation funding for Educational Service Centers will be funded on a new model which is based on student count. Any change in funding will be subject to a phase in percentage of 16.67 percent for fiscal year 2022 and 33.33 percent for fiscal year 2023.

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
Budgetary basis receipts:				
Tuition and fees	\$ 4,277,449	\$ 4,264,849	\$ 4,385,784	\$ 120,935
Investment earnings	33,000	27,570	27,731	161
Extracurricular	1,000	1,000	305	(695)
Contributions and donations	14,500	16,666	18,026	1,360
Contract services	4,861,121	4,643,127	4,774,973	131,846
Intergovernmental	597,978	626,529	626,529	-
Miscellaneous	-	151,457	153,155	1,698
Total budgetary basis receipts	<u>9,785,048</u>	<u>9,731,198</u>	<u>9,986,503</u>	<u>255,305</u>
Budgetary basis disbursements:				
Current:				
Instruction:				
Regular	147,080	147,987	145,989	1,998
Special	4,244,938	4,271,126	4,200,584	70,542
Other	11,628	11,700	9,210	2,490
Support services:				
Pupil	3,188,041	3,207,709	3,179,447	28,262
Instructional staff	748,101	752,716	742,720	9,996
Board of education	135,586	136,422	132,215	4,207
Administration	811,118	816,122	800,816	15,306
Fiscal	378,643	380,979	366,527	14,452
Business	4,982	5,013	5,013	-
Pupil transportation	20,364	20,490	18,695	1,795
Central	314,820	316,762	314,400	2,362
Extracurricular activities	25,041	25,195	24,537	658
Total budgetary basis disbursements	<u>10,030,342</u>	<u>10,092,221</u>	<u>9,940,153</u>	<u>152,068</u>
Excess of receipts over disbursements	<u>(245,294)</u>	<u>(361,023)</u>	<u>46,350</u>	<u>407,373</u>
Other financing sources (uses):				
Refund of prior year expenditures	10,000	194,205	194,205	-
Transfers in	80,114	5,114	5,114	-
Transfers (out)	(74,540)	(75,000)	-	75,000
Advances in	3,179	3,179	17,467	14,288
Advances (out)	(49,960)	(50,268)	(50,268)	-
Total other financing sources (uses)	<u>(31,207)</u>	<u>77,230</u>	<u>166,518</u>	<u>89,288</u>
Net change in fund cash balance	(276,501)	(283,793)	212,868	496,661
Fund cash balance at beginning of year	5,914,037	5,914,037	5,914,037	-
Prior year encumbrances appropriated	132,420	132,420	132,420	-
Fund cash balance at end of year	<u>\$ 5,769,956</u>	<u>\$ 5,762,664</u>	<u>\$ 6,259,325</u>	<u>\$ 496,661</u>

SEE ACCOMPANYING NOTES TO THE BUDGETARY COMPARISON SCHEDULE

**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY, OHIO**

NOTES TO THE BUDGETARY COMPARISON SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

NOTE 1 - BUDGETARY PROCESS

The Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Center Board does follow the budgetary process for control purposes.

The Center's Governing Board adopts the budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Center Governing Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds with the exception of the general fund, which is at the one digit object code. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedules represent the final appropriation amounts passed by the Governing Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations and changes in fund balances on the modified cash basis, the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The budgetary comparison schedule presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the modified cash basis is outstanding year end encumbrances are treated as disbursements (budget) rather than assigned fund balance (modified cash).

The following table summarizes the adjustments necessary to reconcile the modified cash basis statement to the budgetary basis schedule for the general fund:

Net Change in Fund Cash Balance

	<u>General fund</u>
Modified cash basis	\$ 342,044
Funds budgeted elsewhere **	(12,548)
Adjustment for encumbrances	<u>(116,628)</u>
Budget basis	<u>\$ 212,868</u>

** As part of Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting", certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund for reporting purposes. This includes the special enterprise fund, the public school support fund and the unclaimed monies fund.



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

Midwest Regional Educational Service Center
Logan County
1973 State Route 47 W
Bellefontaine, Ohio 43311

To the Governing Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Midwest Regional Educational Service Center, Logan County, (the Center) as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 14, 2022, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2021-001.

Center's Response to Finding

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

January 14, 2022

MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2021

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

FINDING NUMBER 2021-001

Noncompliance

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

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

The Center prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, report on the modified cash basis of accounting rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

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

Officials' Response:

The Treasurer and Governing Board are aware of the requirement. The Midwest Regional Educational Service Center Board approved on March 19, 2015 to present the MRESC's annual financial report on another comprehensive basis of accounting (OCBOA) accepted by Auditor of State, which substantially conforms to the reporting model prescribed by GASB No. 34. This decision was based on the cost benefit relationship. The Treasurer had obtained a quote for the GAAP conversion, which was three times the cost, in addition to increased audit costs.

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**MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER
LOGAN COUNTY**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2021**

Finding Number	Finding Summary	Status	Additional Information
2020-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) – Center did not file annual financial report prepared in accordance with generally accepted accounting principles (GAAP).	Not corrected	Repeated as Finding 2021-001 The Center has chosen to file Other Comprehensive Basis of Accounting (OCBOA) statements rather than filing GAAP statements due to cost considerations. Citation repeated as Finding 2021-001.

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OHIO AUDITOR OF STATE KEITH FABER



MIDWEST REGIONAL EDUCATIONAL SERVICE CENTER

LOGAN 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 2/3/2022

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