

**EDUCATIONAL SERVICE CENTER
OF THE WESTERN RESERVE
LAKE COUNTY, OHIO**

SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2022**

Zupka & Associates
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER



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Members of the Governing Board
Educational Service Center of the Western Reserve
8221 Auburn Rd
Concord Township, OH 44077

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of the Western Reserve, Lake County, prepared by Zupka & Associates, for the audit period July 1, 2021 through June 30, 2022. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

April 19, 2023

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**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

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INDEPENDENT AUDITOR'S REPORT

Educational Service Center of the Western Reserve
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

To the Members of the Governing Board:

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve as of June 30, 2022, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 19 to the basic financial statements, the Center restated its net position and fund balance to treat federal grants received via the Ohio Department of Education as reimbursable grants. As discussed in Note 20 to the basic financial statements, the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. As discussed in Note 21 to the basic financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center. Our opinion is not modified with respect to these matters.

Required Supplementary Information


Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the required budgetary comparison schedule for the Lake County School Financing District Fund, and the Schedules of Net Pension and Postemployment Benefit Liabilities and Pension and Postemployment Benefit Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2023, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Zupka & Associates
Certified Public Accountants

March 20, 2023

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
(Unaudited)

The discussion and analysis of the Educational Service Center of the Western Reserve (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2022. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2022 are as follows:

- General revenues accounted for \$6,595,338 in revenue or 25% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$19,599,498 or 75% of total revenues of \$26,194,836.
- The Center had \$21,094,135 in expenses related to governmental activities; \$19,599,498 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$6,595,338 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2022?" The Government-wide Financial Statements answers this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net position* and changes in the net position. This change in net position is important because it tells the reader that, for the Center as a whole, the financial position has improved or diminished. The causes of this change may be the result of many factors, both financial and non-financial.

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
(Unaudited)

In the Government-wide Financial Statements, the Center presents:

- Governmental Activities – Most of the Center's programs and services are reported here including instruction, support services, and operation of non-instructional services.

Fund Financial Statements

The analysis of the Center's major funds begins on the balance sheet. Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

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

Proprietary Fund - When services are provided to another department of the Center, the service is reported as an internal service fund. The Center has one internal service fund.

Fiduciary Funds - Fiduciary Funds are used to account for resources held for the benefits of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Center's own programs.

The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the District's net position for 2022 compared to 2021:

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2022	2021-Restated
Assets:		
Current and Other Assets	\$10,583,710	\$8,839,526
Net OPEB Asset	1,295,763	1,185,457
Capital Assets, Net	843,725	104,492
Total Assets	12,723,198	10,129,475
Deferred Outflows of Resources:		
Pension	4,240,711	3,727,703
OPEB	545,209	709,925
Total Deferred Outflows of Resources	4,785,920	4,437,628
Liabilities:		
Other Liabilities	2,410,347	1,363,584
Long-Term Liabilities	15,421,240	27,000,815
Total Liabilities	17,831,587	28,364,399
Deferred Inflows of Resources:		
Property Taxes	4,699,978	4,641,797
Leases	569,811	0
Pension	13,677,686	5,889,593
OPEB	3,889,464	3,931,423
Total Deferred Inflows of Resources	22,836,939	14,462,813
Net Position:		
Net Investment in Capital Assets	86,123	104,492
Restricted	1,207,098	943,339
Unrestricted	(24,452,629)	(29,307,940)
Total Net Position	(\$23,159,408)	(\$28,260,109)

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2022, the Center's net position was (\$23,159,408).

A portion of the Center's net position, \$1,207,098 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Table 2 shows the changes in net position for fiscal years 2022 and 2021.

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2022	2021-Restated
Revenues:		
Program Revenues		
Charges for Services and Sales	\$13,802,702	\$12,407,988
Operating Grants and Contributions	5,796,796	2,691,261
General Revenues:		
Property Taxes	5,416,360	5,157,536
Grants and Entitlements	516,931	446,563
Other	662,047	464,281
Total Revenues	<u>26,194,836</u>	<u>21,167,629</u>
Expenses:		
Instruction	6,927,191	5,099,398
Support Services:		
Pupil and Instructional Staff	4,854,774	5,751,832
School Administrative, General Administration, Fiscal and Business	8,041,330	8,137,000
Operations and Maintenance	404,550	292,895
Pupil Transportation	196,272	184,370
Central	448,875	151,115
Operation of Non-Instructional Services	184,986	209,138
Extracurricular Activities	9,722	29,541
Interest and Fiscal Charges	26,435	0
Total Program Expenses	<u>21,094,135</u>	<u>19,855,289</u>
Change in Net Position	5,100,701	1,312,340
Net Position - Beginning of Period, Restated	<u>(28,260,109)</u>	<u>(29,572,449)</u>
Net Position - End of Period	<u><u>(\$23,159,408)</u></u>	<u><u>(\$28,260,109)</u></u>

Governmental Activities

The Center revenues are mainly from charges for services and sales, and property taxes levied for special revenue purposes comprising 73% of the Center's revenues for governmental activities.

Instruction comprises 33% of governmental program expenses. Support services were 66% of governmental program cash expenses. The remaining program expenses were 1%.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services.

Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by charges for services and sales.

Educational Service Center of the Western Reserve, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2022	2021	2022	2021-Restated
Instruction	\$6,927,191	\$5,099,398	\$8,970,462	\$6,485,016
Support Services:				
Pupil and Instructional Staff	4,854,774	5,751,832	(2,866,579)	(3,707,531)
School Administrative, General				
Administration, Fiscal and Business	8,041,330	8,137,000	(6,589,498)	(6,884,148)
Operations and Maintenance	404,550	292,895	(345,830)	(253,297)
Pupil Transportation	196,272	184,370	(172,767)	(152,614)
Central	448,875	151,115	(305,857)	(51,067)
Operation of Non-Instructional Services	184,986	209,138	(161,849)	(180,369)
Extracurricular Activities	9,722	29,541	3,716	(12,030)
Interest and Fiscal Charges	26,435	0	(26,435)	0
Total Expenses	<u>\$21,094,135</u>	<u>\$19,855,289</u>	<u>(\$1,494,637)</u>	<u>(\$4,756,040)</u>

The Center’s Funds

The Center has two major governmental funds: the General Fund and the Lake County School Financing District Fund.

General Fund: Fund balance at June 30, 2022 was \$1,541,343. The net change in fund balance was (\$227,074).

Lake County School Financing District Fund: Fund balance at June 30, 2022 was \$335,818. The net change in fund balance was \$0.

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2022 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations except for the Lake County School Financing District fund, which is required to be presented since the fund collects property tax revenue.

Capital Assets and Debt Administration

Capital Assets

The Center had equipment as capital assets of \$843,725 as of June 30, 2022. See Note 6 to the Basic Financial Statements for further details on the Center’s capital assets.

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
(Unaudited)

Debt

At June 30, 2022, the Center had a notes payable of \$415,198 with a due in one year of \$20,787. See Note 7 to the Basic Financial Statements for further details on the Center's debt.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer, Greg Slemons, at the Educational Service Center of the Western Reserve, 8221 Auburn Road Concord Township, OH 44077.

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Educational Service Center of the Western Reserve, Ohio
Statement of Net Position
June 30, 2022

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$4,310,462
Restricted Cash and Investments	6,953
Receivables (Net):	
Taxes	5,289,509
Accounts	290,882
Intergovernmental	130,907
Leases	553,564
Prepays	1,433
Net OPEB Asset	1,295,763
Depreciable Capital Assets, Net	843,725
Total Assets	12,723,198
Deferred Outflows of Resources:	
Pension	4,240,711
OPEB	545,209
Total Deferred Outflows of Resources	4,785,920
Liabilities:	
Accounts Payable	587,115
Accrued Wages and Benefits	1,823,232
Long-Term Liabilities:	
Due Within One Year	178,632
Due In More Than One Year	
Net Pension Liability	11,835,386
Net OPEB Liability	2,080,464
Other Amounts	1,326,758
Total Liabilities	17,831,587
Deferred Inflows of Resources:	
Property Taxes	4,699,978
Leases	569,811
Pension	13,677,686
OPEB	3,889,464
Total Deferred Inflows of Resources	22,836,939
Net Position:	
Net Investment in Capital Assets	86,123
Restricted for:	
State Grants	13,890
Federal Grants	38,536
Lake County School Financing District	589,531
Other Purposes	565,141
Unrestricted	(24,452,629)
Total Net Position	(\$23,159,408)

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2022

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$2,856,957	\$1,394,173	\$2,770,914	\$1,308,130
Special	3,702,329	10,132,966	187,764	6,618,401
Vocational	290,605	1,373,086	0	1,082,481
Adult/Continuing	77,300	0	31,164	(46,136)
Other	0	7,586	0	7,586
Support Services:				
Pupil	3,173,535	457,115	158,738	(2,557,682)
Instructional Staff	1,681,239	41,162	1,331,180	(308,897)
General Administration	6,096,120	3,885	537,681	(5,554,554)
School Administration	1,498,427	193,885	574,914	(729,628)
Fiscal	402,452	61,858	77,143	(263,451)
Business	44,331	2,466	0	(41,865)
Operations and Maintenance	404,550	31,846	26,874	(345,830)
Pupil Transportation	196,272	22,013	1,492	(172,767)
Central	448,875	44,086	98,932	(305,857)
Operation of Non-Instructional Services	184,986	23,137	0	(161,849)
Extracurricular Activities	9,722	13,438	0	3,716
Interest and Fiscal Charges	26,435	0	0	(26,435)
Totals	\$21,094,135	\$13,802,702	\$5,796,796	(1,494,637)
General Revenues:				
Property Taxes Levied for:				
Special Revenue Purposes				5,416,360
Grants and Entitlements, Not Restricted				516,931
Investment Earnings				3,464
Other Revenues				658,583
Total General Revenues				6,595,338
Change in Net Position				5,100,701
Net Position - Beginning of Year, Restated				(28,260,109)
Net Position - End of Year				(\$23,159,408)

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Balance Sheet
Governmental Funds
June 30, 2022

	General	Lake County School Financing District	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$3,149,187	\$0	\$1,006,748	\$4,155,935
Restricted Cash and Investments	6,953	0	0	6,953
Receivables (Net):				
Taxes	0	5,289,509	0	5,289,509
Accounts	290,882	0	0	290,882
Intergovernmental	40,928	0	89,979	130,907
Leases	553,564	0	0	553,564
Interfund	5,167	0	0	5,167
Prepays	1,319	0	114	1,433
Total Assets	\$4,048,000	\$5,289,509	\$1,096,841	\$10,434,350
Liabilities:				
Accounts Payable	\$257,654	\$0	\$329,461	\$587,115
Accrued Wages and Benefits	1,679,192	0	144,040	1,823,232
Interfund Payable	0	0	5,167	5,167
Total Liabilities	1,936,846	0	478,668	2,415,514
Deferred Inflows of Resources:				
Property Taxes	0	4,953,691	0	4,953,691
Grants and Other Taxes	0	0	56,281	56,281
Leases	569,811	0	0	569,811
Total Deferred Inflows of Resources	569,811	4,953,691	56,281	5,579,783
Fund Balances:				
Nonspendable	8,272	0	114	8,386
Restricted	0	335,818	633,153	968,971
Assigned	120,341	0	0	120,341
Unassigned	1,412,730	0	(71,375)	1,341,355
Total Fund Balances	1,541,343	335,818	561,892	2,439,053
Total Liabilities, Deferred Inflows and Fund Balances	\$4,048,000	\$5,289,509	\$1,096,841	\$10,434,350

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2022

Total Governmental Fund Balance		\$2,439,053
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		843,725
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	253,713	
Intergovernmental	<u>56,281</u>	
		309,994
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position		154,527
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(332,590)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	4,240,711	
Deferred inflows of resources related to pensions	(13,677,686)	
Deferred outflows of resources related to OPEB	545,209	
Deferred inflows of resources related to OPEB	<u>(3,889,464)</u>	
		(12,781,230)
Long-term liabilities and net OPEB assets are not available to pay for current period expenditures and are not due and payable in the current period and, therefore, are not reported in the funds.		
Net OPEB Asset	1,295,763	
Net Pension Liability	(11,835,386)	
Net OPEB Liability	(2,080,464)	
Other Amounts	<u>(1,172,800)</u>	
		<u>(13,792,887)</u>
Net Position of Governmental Activities		<u><u>(\$23,159,408)</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2022

	General	Lake County School Financing District	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$0	\$5,432,198	\$0	\$5,432,198
Tuition and Fees	1,472,102	0	0	1,472,102
Investment Earnings	3,464	0	0	3,464
Intergovernmental	525,968	537,681	5,422,286	6,485,935
Extracurricular Activities	11,111	0	0	11,111
Contract Services	12,258,129	0	0	12,258,129
Other Revenues	708,535	0	2,370	710,905
Total Revenues	14,979,309	5,969,879	5,424,656	26,373,844
Expenditures:				
Current:				
Instruction:				
Regular	1,238,259	0	2,321,564	3,559,823
Special	4,737,483	0	241,316	4,978,799
Vocational	377,468	0	0	377,468
Adult/Continuing	80,989	0	25,905	106,894
Support Services:				
Pupil	4,420,627	0	148,093	4,568,720
Instructional Staff	749,748	0	1,430,090	2,179,838
General Administration	133,105	5,969,879	0	6,102,984
School Administration	1,811,128	0	605,617	2,416,745
Fiscal	522,356	0	81,978	604,334
Business	73,961	0	0	73,961
Operations and Maintenance	378,000	0	24,958	402,958
Pupil Transportation	276,671	0	1,519	278,190
Central	463,295	0	94,106	557,401
Operation of Non-Instructional Services	275,489	0	0	275,489
Extracurricular Activities	9,722	0	0	9,722
Debt Service:				
Principal Retirement	56,647	0	0	56,647
Interest and Fiscal Charges	26,435	0	0	26,435
Total Expenditures	15,631,383	5,969,879	4,975,146	26,576,408
Excess of Revenues Over (Under) Expenditures	(652,074)	0	449,510	(202,564)
Other Financing Sources (Uses):				
Issuance of Notes Payable	425,000	0	0	425,000
Total Other Financing Sources (Uses)	425,000	0	0	425,000
Net Change in Fund Balance	(227,074)	0	449,510	222,436
Fund Balance - Beginning of Year, Restated	1,768,417	335,818	112,382	2,216,617
Fund Balance - End of Year	\$1,541,343	\$335,818	\$561,892	\$2,439,053

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2022

Net Change in Fund Balance - Total Governmental Funds \$222,436

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

Governmental funds report capital asset additions as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	17,335	
Depreciation Expense	<u>(82,549)</u>	(65,214)

Governmental funds report center pension contributions as expenditures. However in the Statement of Activities, the cost of pension and OPEB benefits earned net of employer contributions are reported as pension and OPEB expense.

Pension Contributions	1,733,912	
Pension Expense	3,254,925	
OPEB Contributions	67,751	
OPEB Expense	<u>445,837</u>	5,502,425

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Delinquent Property Taxes	(15,838)	
Intergovernmental	<u>(163,170)</u>	(179,008)

Repayment of notes payable and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 56,647

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated Absences		(99,904)
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The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

Change in Net Position - Internal Service Funds		88,319
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Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net position. (425,000)

Change in Net Position of Governmental Activities		<u><u>\$5,100,701</u></u>
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See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2022

	<u>Governmental Activities Internal Service Fund</u>
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$154,527</u>
Total Assets	<u>154,527</u>
Net Position:	
Unrestricted	<u>154,527</u>
Total Net Position	<u>\$154,527</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2022

	Governmental Activities
	Internal Service Fund
Operating Revenues:	
Charges for Services	\$2,702,352
Other Revenues	26,603
Total Operating Revenues	<u>2,728,955</u>
Operating Expenses:	
Personal Services	2,636,475
Materials and Supplies	4,161
Total Operating Expenses	<u>2,640,636</u>
Change in Operating Income	<u>88,319</u>
Net Position - Beginning of Year	<u>66,208</u>
Net Position - End of Year	<u>\$154,527</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2022

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$2,728,955
Cash Payments to Employees	(2,636,475)
Cash Payments to Suppliers	(4,161)
Net Cash Provided (Used) by Operating Activities	<u>88,319</u>
Net Increase (Decrease) in Cash and Cash Equivalents	88,319
Cash and Cash Equivalents - Beginning of Period	<u>66,208</u>
Cash and Cash Equivalents - End of Period	<u><u>\$154,527</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>\$88,319</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$88,319</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2022

	<u>Custodial Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,164,154
Receivables (Net):	
Accounts	163,646
Intergovernmental	<u>25,053</u>
Total Assets	<u>2,352,853</u>
Liabilities:	
Accounts Payable	33,645
Intergovernmental Payable	<u>222,535</u>
Total Liabilities	<u>256,180</u>
Net Position:	
Restricted for Individuals, Organizations, and Other Governmer	<u>2,096,673</u>
Total Net Position	<u><u>\$2,096,673</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2022

	Custodial Funds
Additions:	
Collections for iSTEM Geauga Early College High School	\$1,487,451
Collections for Lake Geauga Computer Association	<u>2,818,910</u>
Total Additions	<u>4,306,361</u>
Deductions:	
Distributions to iSTEM Geauga Early College High School	1,819,231
Distributions to Lake Geauga Computer Association	<u>2,928,597</u>
Total Deductions	<u>4,747,828</u>
Change in Net Position	(441,467)
Net Position - Beginning of Year	<u>2,538,140</u>
Net Position - End of Year	<u><u>\$2,096,673</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 1 - Description of the Center and Reporting Entity

The Educational Service Center of the Western Reserve (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves all school districts in Lake and Geauga County. These school districts include: Auburn Career Center, Berkshire Local School District, Cardinal Local School District, Chardon Local School District, Fairport Harbor Exempted Village School District, iSTEM Geauga Early College High School, Kenston Local School District, Kirtland Local School District, Madison Local School District, Mentor Exempted Village School District, Painesville City Local School District, Perry Local School District, Riverside Local School District, West Geauga Local School District, Wickliffe City School District and Willoughby-Eastlake City School District. The Center also serves school districts in Cuyahoga and Ashtabula Counties.

Financial Reporting Entity

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District have been included in the accompanying financial statements as a blended component unit. The Lake County School Financing District is legally separate, but governed by the same board; therefore, the Center has the ability to impose its will over the Lake County School Financing District. The Center acts as the fiscal agent for the Lake County School Financing District; however the Lake County School Financing District is reported as a special revenue fund.

The Center is associated with two jointly governed organizations, one claims servicing pool, and one insurance purchasing pool. These organizations are:

Jointly Governed Organizations:

Lake Geauga Computer Association
Ohio Schools Council Association

Claims Servicing Pool:

Lake County Schools Council of Governments' Health Care Benefits Program

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation GRRP

Information about these organizations is discussed in the notes to the basic financial statements.

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 2 - Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

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

The government-wide statements are prepared using the economic resources measurement focus. All assets, deferred outflows of resources, liabilities and deferred inflows of resources associated with the operation of the Center are included on the statement of net position. Fiduciary Funds are not included in entity-wide statements.

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year ended June 30, 2022. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Center classifies each fund as either governmental, proprietary or fiduciary.

Governmental Funds

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

General Fund - The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Lake County School Financing District – The Lake County School Financing District Fund was created for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

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

Proprietary Fund

Certain Center funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. Proprietary funds are classified as either enterprise funds or internal service funds. The Center does not have any enterprise funds.

Internal Service Fund – An internal service fund accounts for the financing of services provided by one department or agency to other Center departments or agencies or to other governments, on a cost reimbursement basis. The Center's internal service fund accounts for teachers' training for special education teachers, and fingerprinting for the local school districts on a cost reimbursement basis.

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

are therefore not available to support the Center's own programs. The Center's only fiduciary funds are custodial. The Center is the fiscal agent for the Lake-Geauga Computer Association and the iSTEM Geauga Early College High School, which are accounted for in custodial funds.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: contract services, grants and interest.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Center, deferred outflows of resources includes pension and other postemployment benefits. These are reported on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources may include property taxes, OPEB, grants and other taxes, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of six month ended June, 30 2022, but which were levied to finance year 2023 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. For more pension and OPEB related information, see Notes 9 and 10.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

To improve cash management, cash received by the Center is pooled. Monies for all funds, including proprietary and fiduciary funds, are maintained in this pool. Individual fund integrity is maintained through Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the basic financial statements.

As of June 30, 2022, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

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 their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for deposits and withdrawals of \$100 million or more. STAR Ohio reserves the right to limit the transaction to \$250 million per day, 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.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue as of June 30, 2022, amounted to \$3,464 in the General fund.

Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Center maintains a capitalization threshold of \$5,000 or more (policy 7455). Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Equipment	3 – 10 years
Building	27.5 – 30 years

Pension/Other Postemployment Benefits (OPEB)

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

Compensated Absences

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds and estimated on the Center's past experience of making termination payments.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service depending on length of service
Maximum Accumulation	Not eligible unless stated in contract	Per Contract	Per Contract
Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Full-Time, prorated if less than Full-Time per month of employment (15 days per year)	Full-Time, prorated if less than Full-Time per month of employment (15 days per year)	Full-Time, prorated if less than Full-Time per month of employment (15 days per year)
Maximum Accumulation	Unlimited	Unlimited	Unlimited
Vested	As earned	As earned	As earned
Termination Entitlement	280 days	280 days	280 days

Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$1,207,098 in restricted net position, none were restricted by enabling legislation.

Fund Balance

In accordance with Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting*, the Center classifies its fund balance based on the purpose for which the resources were received and the level of constraint placed on the resources. The following categories are used:

Nonspendable – resources that are not in spendable form (inventory) or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have external purpose restraints imposed on them by providers, such as creditors, grantors, or other regulators.

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Board of Education.

Assigned – resources that are intended to be used for specific purposes as approved through the Center's formal purchasing procedure by the Treasurer.

Unassigned – residual fund balance within the General Fund that is not restricted, committed, or assigned. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from incurred expenditures for specific purposes exceeding amounts which had been restricted, committed or assigned for said purposes.

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

Interfund Activity

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

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

As a general rule, the effect of interfund (internal) activity has been eliminated from the government-wide statement of activities. The interfund services provided and used are not eliminated in the process of consolidation.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Center, these revenues are sales for teacher's training and finger printing. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenue and expenses not meeting the definition of operating are reported as non-operating.

Budgetary Process

Except for the Lake County School Financing District fund, which is required to be presented since it collects property tax revenue, no budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are not required to prepare a budget.

Except for the Lake County School Financing District fund, which is required to be presented since it collects property tax revenue, no budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are not required to prepare a budget.

Estimates

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of the other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unclaimed monies.

Note 3 - Equity in Pooled Cash and Investments

State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand or in money market deposit accounts.

Inactive Monies – Those monies not required for use within the current five year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

needed before the end of the current period of designation of depositories. Interim monies held by the Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and 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 division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 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 institution's 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.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Deposits

Custodial credit risk for deposits 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. As of June 30, 2022, \$59,338 of the Center’s bank balance of \$326,098 was exposed to custodial credit risk because it was uninsured and collateralized.

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

Eligible securities pledged to the Center and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2022, the Center had the following investments:

	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
STAR Ohio	\$6,202,740	N/A	0.10

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. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the Center’s recurring fair value measurements as of June 30, 2022. STAR Ohio is reported at its share price (net asset value per share).

Interest Rate Risk - In accordance with the investment policy, the Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years.

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. At year end, the Center’s allocations of investments were as follows: STAR Ohio (100%).

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

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 investments or collateral securities that are in the possession of an outside party. All of the Center's securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

Note 4 - Lake County School Financing District

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total property assessed valuation and the denominator being the aggregate property assessed valuation pupil population of all Member Districts per the most recent schedule A from the Lake County Auditor.

Note 5 – Receivables

Receivables at June 30, 2022, consisted of taxes, accounts, intergovernmental, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

	Restated Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$542,595	\$17,335	\$0	\$559,930
Totals at Historical Cost	542,595	17,335	0	559,930
Less Accumulated Depreciation:				
Equipment	438,103	28,317	0	466,420
Total Accumulated Depreciation	438,103	28,317	0	466,420
Governmental Activities Capital Assets, Net	<u>\$104,492</u>	<u>(\$10,982)</u>	<u>\$0</u>	<u>\$93,510</u>
Leased Assets:				
Building	\$804,447	\$0	\$0	\$804,447
Total Leased Asset, being Amortized	804,447	0	0	804,447
Less: Accumulated Amortization	0	54,232	0	54,232
Total Leased Asset, net	804,447	(54,232)	0	750,215
Total Capital Assets, net	<u>\$908,939</u>	<u>(\$65,214)</u>	<u>\$0</u>	<u>\$843,725</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$799
Special	784
Other Instruction	349
Support Services:	
Pupil	1,476
Instructional Staff	1,759
School Administration	5,625
Business	251
Operations and Maintenance	54,232
Pupil Transportation	15,450
Central	1,824
Total Depreciation Expense	<u>\$82,549</u>

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 7 - Long-Term Liabilities

Long-term liabilities activity for the six months ended June 30, 2022:

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Notes Payable	\$0	\$425,000	\$9,802	\$415,198	\$20,787
Lease Liability	804,447	0	46,845	757,602	46,307
Compensated Absences	295,004	178,285	140,699	332,590	111,538
Net Pension Liability	24,099,309	0	12,263,923	11,835,386	0
Net OPEB Liability	2,606,502	0	526,038	2,080,464	0
Total Long-Term Obligations	<u>\$27,805,262</u>	<u>\$603,285</u>	<u>\$12,987,307</u>	<u>\$15,421,240</u>	<u>\$178,632</u>

Compensated Absences will be paid from the fund from which the employee is paid.

Notes payable and the lease liability will be paid from the General Fund.

Principal and interest requirements to retire debt outstanding at year end are as follows:

Fiscal Year Ending June 30	Notes Payable	
	Principal	Interest
2023	\$20,787	\$15,377
2024	21,574	14,590
2025	22,391	13,774
2026	23,238	12,926
2027	24,547	12,046
2028-2032	140,932	45,358
2033-2037	161,729	15,539
Total	<u>\$415,198</u>	<u>\$129,610</u>

Note 8 - Lease Liability – Leased Assets

The Center has entered into contracts that convey the control of the right to use their nonfinancial assets (the underlying assets) for space as specified in the contracts for a period of time. The basis and terms of the contract is 20 years after the commencement date.

During the period, there were no outflows of resources recognized for variable payments not previously included in the measurement of the lease liability. Also, there were no outflows of resources recognized for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability during the period. There were no commitments under leases before the commencement of the lease term.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Principal and interest amounts for the next five years and thereafter are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2023	\$46,307	\$18,693	\$65,000
2024	47,496	17,504	65,000
2025	48,715	16,285	65,000
2026	49,966	15,034	65,000
2027	51,250	13,750	65,000
2028-2032	276,677	48,323	325,000
2033-2036	237,191	11,976	249,167
	<u>\$757,602</u>	<u>\$141,565</u>	<u>\$899,167</u>

Note 9 - 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 District’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 District’s obligation for this liability to annually required payments. The District cannot control benefit terms or the manner in which pensions/OPEB are financed; however, the District 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 remainder of this note includes the required pension disclosures. See Note 9 for the required OPEB disclosures.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Plan Description - School Employees Retirement System (SERS)

Plan Description

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.20% for the first thirty years of service and 2.50% 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. The COLA is indexed to the percentage increase in the CPI-W, not to exceed 2.50% and with a floor of 0.00%. A three-year COLA suspension was in effect for all benefit recipients for the years 2018, 2019, and 2020. The Retirement Board approved a 0.50% COLA for calendar year 2021 and 2.50% for 2022.

Funding Policy

Plan members are required to contribute 10.00% of their annual covered salary and the District is required to contribute 14.00% 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 10.00% for plan members and 14.00% 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, 2022, the allocation to pension, death benefits, and Medicare B was 14.00%. For fiscal year 2022, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The District's contractually required contribution to SERS was \$592,881 for fiscal year 2022. Of this amount \$16,201 is reported as accrued wages and benefits.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307.

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.20% 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 0.00% 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 their member contributions and 9.53% of the 14.00% employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47% of the 14.00% 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, 12.00% of the 14.00% member rate is deposited into the member's DC account and the remaining 2.00% 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 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.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

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

Funding Policy

Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2022 employer and employee contribution rate of 14.00% was equal to the statutory maximum rates. For fiscal year 2022, the full employer contribution was allocated to pension.

The District's contractually required contribution to STRS was \$1,141,031 for fiscal year 2022. Of this amount \$156,074 is reported as accrued wages and benefits.

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

The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,977,600	\$7,857,786	\$11,835,386
Proportion of the Net Pension Liability:			
Current Measurement Date	0.10780250%	0.06145666%	
Prior Measurement Date	<u>0.11760230%</u>	<u>0.06745142%</u>	
Change in Proportionate Share	-0.00979980%	-0.00599476%	
Pension Expense	(\$721,357)	(\$2,533,568)	(\$3,254,925)

At June 30 2022, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$384	\$242,768	\$243,152
Changes of assumptions	83,757	2,179,890	2,263,647
Contributions subsequent to the measurement date	592,881	1,141,031	1,733,912
Total Deferred Outflows of Resources	<u>\$677,022</u>	<u>\$3,563,689</u>	<u>\$4,240,711</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$103,155	\$49,252	\$152,407
Net difference between projected and actual earnings on pension plan investments	2,048,580	6,771,908	8,820,488
Changes in employer proportionate share of net pension liability	571,928	4,132,863	4,704,791
Total Deferred Inflows of Resources	<u>\$2,723,663</u>	<u>\$10,954,023</u>	<u>\$13,677,686</u>

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

\$1,733,912 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2023	(\$938,337)	(\$3,038,613)	(\$3,976,950)
2024	(585,317)	(2,178,016)	(2,763,333)
2025	(487,078)	(1,710,736)	(2,197,814)
2026	(628,790)	(1,603,999)	(2,232,789)
Total	<u>(\$2,639,522)</u>	<u>(\$8,531,364)</u>	<u>(\$11,170,886)</u>

Actuarial Assumptions - SERS

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

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

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, 2021, compared with June 30, 2020, are presented below:

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

	June 30, 2021	June 30, 2020
Inflation	2.40%	3.00%
Future Salary Increases, including inflation	3.25% to 13.58%	3.50% to 18.20%
COLA or Ad Hoc COLA	2.00%, on or after April 1, 2018, COLAs for future retirees will be delayed for three years following commencement	2.50%
Investment Rate of Return	7.00% net of system expenses	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)	Entry Age Normal (Level Percent of Payroll)

Mortality rates for 2021 were based on the PUB-2010 General Employee Amount Weight Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.30% for males and set forward 3 years and adjusted 106.80% for females. Future improvement in mortality rates is reflected by applying the MP-2020 projection scale generationally.

Mortality rates for 2020 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, 120.00% of male rates, and 110.00% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90.00% for male rates and 100.00% 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, 2020.

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

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	-0.33%
US Equity	24.75%	5.72%
Non-US Equity Developed	13.50%	6.55%
Non-US Equity Emerging	6.75%	8.54%
Fixed Income/Global Bonds	19.00%	1.14%
Private Equity	11.00%	10.03%
Real Estate/Real Assets	16.00%	5.41%
Multi-Asset Strategy	4.00%	3.47%
Private Debt/Private Credit	3.00%	5.28%
Total	100.00%	

Discount Rate

The total pension liability for 2021 was calculated using the discount rate of 7.00%. The discount rate for 2020 was 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 (7.00%). 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 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 7.00%, 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 (6.00%), or one percentage point higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Proportionate share of the net pension liability	\$6,617,749	\$3,977,600	\$1,751,046

Actuarial Assumptions - STRS

Key methods and assumptions used in the June 30, 2021, actuarial valuation compared to those used in the June 30, 2020, actuarial valuation are presented below:

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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	7.00% net of investments expense, including inflation	7.45% net of investments expense, including inflation
Discount Rate of Return	7.00%	7.45%
Payroll Increases	3.00%	3.00%
Cost-of-Living Adjustments (COLA)	0.00%	0.00%

Post-retirement mortality rates are based on the RP-2014 Annuitant Mortality Table with 50.00% of rates through age 69, 70.00% of rates between ages 70 and 79, 90.00% of rates between ages 80 and 84, and 100.00% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90.00% of rates for males and 100.00% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2021, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

*10 Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25%, and is net of investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021, and was 7.45% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes that 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. Based on those assumptions, STRS'

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fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2021. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2021.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the District's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.00%, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00%) or one-percentage-point higher (8.00%) than the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Proportionate share of the net pension liability	\$14,714,693	\$7,857,786	\$2,063,715

Changes Between the Measurement Date and the Reporting date

In February 2022, the Board approved changes to demographic measures that will impact the June 30, 2022, actuarial valuation. These demographic measures include retirement, salary increase, disability/termination and mortality assumptions. In March 2022, the STRS Board approved benefit plan changes to take effect on July 1, 2022. These changes include a one-time three percent cost-of-living increase (COLA) to be paid to eligible benefit recipients and the elimination of the age 60 requirement for retirement age and service eligibility that was set to take effect in 2026. The effect on the net pension liability is unknown.

Note 10 - Defined Benefit OPEB Plans

See Note 9 for a description of the net OPEB liability (asset).

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description

The District 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. The following types of credit purchased after January 29, 1981 do not count toward health care coverage eligibility: military, federal, out-of-state, municipal, private school, exempted, and early retirement incentive credit. 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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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 14.00% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2022, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2022, this amount was \$25,000. Statutes provide that no employer shall pay a health care surcharge greater than 2.00% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.50% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2022, the District's surcharge obligation was \$67,751.

The surcharge, added to the allocated portion of the 14.00% employer contribution rate is the total amount assigned to the Health Care Fund. The District's contractually required contribution to SERS was \$67,751 for fiscal year 2022.

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. 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. All benefit recipients 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 14.00% of covered payroll. For the fiscal year ended June 30, 2022, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liabilities (Assets), OPEB Expense (Income), and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability (asset) was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability (asset) was based on the District's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

Educational Service Center of the Western Reserve, Ohio
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For the Fiscal Year Ended June 30, 2022

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	\$2,080,464	\$0	\$2,080,464
Proportionate Share of the Net OPEB (Asset)	0	(1,295,763)	(1,295,763)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.10992730%	0.06145666%	
Prior Measurement Date	0.11993140%	0.06745142%	
Change in Proportionate Share	-0.01000410%	-0.00599476%	
OPEB Expense	(\$180,695)	(\$265,142)	(\$445,837)

At June 30 2022, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$22,176	\$46,139	\$68,315
Changes of assumptions	326,376	82,767	409,143
Contributions subsequent to the measurement date	67,751	0	67,751
Total Deferred Outflows of Resources	<u>\$416,303</u>	<u>\$128,906</u>	<u>\$545,209</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$1,036,165	\$237,408	\$1,273,573
Changes of assumptions	284,902	773,019	1,057,921
Net difference between projected and actual earnings on OPEB plan investments	45,199	359,163	404,362
Changes in employer proportionate share of net OPEB liability	643,560	510,048	1,153,608
Total Deferred Inflows of Resources	<u>\$2,009,826</u>	<u>\$1,879,638</u>	<u>\$3,889,464</u>

\$67,751 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Fiscal Year Ending June 30:	SERS	STRS	Total
2023	(\$377,722)	(\$536,429)	(\$914,151)
2024	(378,039)	(527,441)	(905,480)
2025	(366,412)	(466,103)	(832,515)
2026	(311,419)	(167,450)	(478,869)
2027	(173,917)	(53,985)	(227,902)
Thereafter	(53,766)	675	(53,091)
Total	<u>(\$1,661,275)</u>	<u>(\$1,750,733)</u>	<u>(\$3,412,008)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2021, compared with June 30, 2020, are presented below:

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Educational Service Center of the Western Reserve, Ohio
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For the Fiscal Year Ended June 30, 2022

	June 30, 2021	June 30, 2020
Inflation	2.40%	3.00%
Future Salary Increases, Including Inflation Wage Increases	3.25% to 13.58%	3.50% to 18.20%
Investment Rate of Return	7.00% net of investment expense, including inflation	7.50% net of investment expense, including inflation
Municipal Bond Index Rate:		
Measurement Date	1.92%	2.45%
Prior Measurement Date	2.45%	3.13%
Single Equivalent Interest Rate (SEIR), net of plan investment expense, including price inflation:		
Measurement Date	2.27%	2.63%
Prior Measurement Date	2.63%	3.22%
Medical Trend Assumption:		
Medicare	5.125% to 4.40%	5.25% to 4.75%
Pre-Medicare	6.75% to 4.40%	7.00% to 4.75%

For 2021, mortality rates among healthy retirees were based on the PUB-2010 General Employee Amount Weighted Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.30% for males and set forward 3 years and adjusted 106.80% for females. Mortality rates for contingent survivors were based on PUB-2010 General Amount Weighted Below Median Contingent Survivor mortality table projected to 2017 with ages set forward 1 year and adjusted 105.50% for males and adjusted 122.50% for females. Mortality rates for actives is based on PUB-2010 General Amount Weighted Below Median Employee mortality table.

For 2020, mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120.00% of male rates and 110.00% of female rates. RP-2000 Disabled Mortality Table with 90.00% for male rates and 100.00% for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2020.

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 2015 through 2020, and was adopted by the Board in 2021. 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, 7.00%, 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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The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2020 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	-0.33%
US Equity	24.75%	5.72%
Non-US Equity Developed	13.50%	6.55%
Non-US Equity Emerging	6.75%	8.54%
Fixed Income/Global Bonds	19.00%	1.14%
Private Equity	11.00%	10.03%
Real Estate/Real Assets	16.00%	5.41%
Multi-Asset Strategy	4.00%	3.47%
Private Debt/Private Credit	3.00%	5.28%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2021 was 2.27%. The discount rate used to measure total OPEB liability prior to June 30, 2021, was 2.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 1.50% of projected covered payroll each year, which includes a 1.50% payroll surcharge and no contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments of current System members by SERS actuaries. The Municipal Bond Index Rate is used in the determination of the SEIR for both the June 30, 2020 and the June 30, 2021 total OPEB liability. The Municipal Bond Index rate is the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion. The Municipal Bond Index Rate is 1.92% at June 30, 2021 and 2.45% at June 30, 2020.

Sensitivity of the 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 (1.27%) and higher (3.27%) than the current discount rate (2.27%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (5.75% decreasing to 3.40%) and higher (7.75% decreasing to 5.40%) than the current rate.

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	1% Decrease (1.27%)	Current Discount Rate (2.27%)	1% Increase (3.27%)
Proportionate share of the net OPEB liability	\$2,577,947	\$2,080,464	\$1,683,040
	1% Decrease (5.75% decreasing to 3.40%)	Current Trend Rate (6.75% decreasing to 4.40%)	1% Increase (7.75% decreasing to 5.40%)
Proportionate share of the net OPEB liability	\$1,601,787	\$2,080,464	\$2,719,830

Actuarial Assumptions - STRS

Key methods and assumptions used in the June 30, 2021, actuarial valuation and the June 30, 2021 actuarial valuation are presented below:

	June 30, 2021	June 30, 2020
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	7.00%, net of investment expenses, including inflation	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.00%
Discount Rate of Return	7.00%	7.45%
Health Care Cost Trends:		
Medical		
Pre-Medicare	4.93% initial, 4.00% ultimate	5.00% initial, 4.00% ultimate
Medicare	-16.18% initial, 4.00% ultimate	-6.69% initial, 4.00% ultimate
Prescription Drug		
Pre-Medicare	6.33% initial, 4.00% ultimate	6.50% initial, 4.00% ultimate
Medicare	29.98% initial, 4.00% ultimate	11.87% initial, 4.00% ultimate

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

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50.00% of rates through age 69, 70.00% of rates between ages 70 and 79, 90.00% of rates between ages 80 and 84, and 100.00% 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 90.00% of rates for males and 100.00% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2021, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

The non-Medicare subsidy percentage was increased effective January 1, 2022 from 2.055% to 2.10% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2022.

Educational Service Center of the Western Reserve, Ohio
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The Medicare Part D Subsidy was updated to reflect it is expected to be negative in CY 2022. The Part B monthly reimbursement elimination date was postponed indefinitely.

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 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 annualized geometric nominal returns, which include the real rate of return and inflation of 2.25%, and is net of 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 liability was 7.00% as of June 30, 2021, and was 7.45% as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes STRS 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 as of June 30, 2021. Therefore, the long-term expected rate of return on health care plan investments of 7.00% was used to measure the total OPEB liability as of June 30, 2021.

Sensitivity of the 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, 2021, calculated using the current period discount rate assumption of 7.00%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) 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.

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Educational Service Center of the Western Reserve, Ohio
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	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net OPEB (asset)	(\$1,093,424)	(\$1,295,763)	(\$1,464,788)

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$1,457,939)	(\$1,295,763)	(\$1,095,219)

Changes Between the Measurement Date and the Reporting date

In February 2022, the Board approved changes to demographic measures that will impact the June 30, 2022, actuarial valuation. The effect on the net OPEB liability (asset) is unknown.

Note 11 - Contingent Liabilities

Grants

The Center receives 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 General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2022.

Note 12 - Jointly Governed Organizations

The Lake Geauga Computer Association is a jointly governed organization consisting of 19 school districts in Lake, Geauga, Medina and Cuyahoga Counties. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee consists of the member elected superintendents and Treasurers from participating school districts. The degree of control exercised by any participating school Center is limited to its voting rights as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8221 Auburn Road, Painesville, OH 44077.

The Ohio Schools Council Association (Council) is a jointly governed organization among 199 school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school Center is limited to its representation on the Board. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6393 Oak Tree Boulevard, Independence, OH 44131.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 13 - Claims Servicing Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program – The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan’s business and affairs are conducted by a three member Board of Directors elected from the HCBP’s assembly.

Note 14 – Insurance Purchasing Pool

The Center participates in the Ohio School Boards Association Workers’ Compensation Group Retrospective Rating Program (GRRP), an insurance rating pool. The intent of the GRRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRRP. The workers’ compensation experience of the participating school districts and centers is calculated as one experience and a common premium rate is applied to all school districts and centers in the GRRP. Each participant pays its workers’ compensation premium to the State based on the rate for the GRRP rather than its individual rate. Total savings are then calculated and each participant’s individual performance is compared to the overall savings percentage of the GRRP.

A participant will then either receive money from or be required to contribute to the “Equity Pooling Fund”. This “equity pooling” arrangement insures that each participant shares equally in the overall performance of the GRRP. Participation in the GRRP is limited to school districts and centers that can meet the GRRP’s selection criteria.

Note 15 – Revenues

The ESC of the Western Reserve is funded by the State Board of Education from State funds in the amount of \$32.50 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center’s territory and all the Service Center’s client school districts.

Due to provisions in the State budget bill, the per pupil funding in the permanent section of law did not apply to fiscal years 2014, 2015 and 2016. Instead, the ESC received a percentage of the funding they received in previous years. The ESC received 76 percent of the state subsidy per pupil amount.

The Service Center may contract with city, exempted village, local, joint vocational or cooperative education school districts to provide special education and related services. The individual boards of education pay the costs for these services directly to the Service Center.

The Lake County School Financing District’s source of revenue is derived from property taxes and related state reimbursements. The taxes go to the Lake County School Financing District and are then allocated and sent to the applicable school districts.

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 16 - Interfund Transactions

Interfund transactions at June 30, 2022, consisted of the following interfund receivables and interfund payables:

	Interfund	
	Receivable	Payable
General Fund	\$5,167	\$0
Other Governmental Funds	0	5,167
Total All Funds	<u>\$5,167</u>	<u>\$5,167</u>

Interfund balance/transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations; to segregate and to return money to the fund from which it was originally provided once a project is completed.

Note 17 – Accountability

The following individual funds had a deficit in fund balance at year end:

Fund	Deficit
Other Governmental Funds:	
IDEA Special Education	\$46,892
ESSER	13,721
English Learners PD Grant	1,197
Progress Project	9,481

The general fund is liable for any deficit in any funds and will provide operating transfers when cash is required, not when expenditures are incurred.

Note 18 – Fund Balances

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

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Fund Balances	General	Lake County School Financing District	Other Governmental Funds	Total
Nonspendable:				
Unclaimed Monies	\$6,953	\$0	\$0	\$6,953
Prepays	1,319	0	114	1,433
Total Nonspendable	8,272	0	114	8,386
Restricted for:				
Drug Free Fundraiser	0	0	7,879	7,879
Other Grants	0	0	552,790	552,790
Science Center	0	0	13,884	13,884
Safe Drug Free	0	0	39,080	39,080
GEER	0	0	15,048	15,048
Student Managed Student Activity	0	0	4,472	4,472
Lake County Financing District	0	335,818	0	335,818
Total Restricted	0	335,818	633,153	968,971
Assigned to:				
Encumbrances	113,414	0	0	113,414
Public School Support	6,927	0	0	6,927
Total Assigned	120,341	0	0	120,341
Unassigned (Deficit)	1,412,730	0	(71,375)	1,341,355
Total Fund Balance	\$1,541,343	\$335,818	\$561,892	\$2,439,053

Note 19 - Restatement of Fund Balance/Net Position

Historically, federal grants received via the Ohio Department of Education were treated as non-reimbursable grants. Due to clarifications, it was determined that these grants should be treated as reimbursable grants. This clarification had the following effect on fund balance as reported at June 30, 2021:

	Other Governmental Funds
Fund Balance, June 30, 2021, as previously reported	\$155,601
Adjustments:	
Change in Intergovernmental Receivables	(277,884)
Change in Deferred Inflows: Grants and Other Taxes	234,665
Restated Fund Balance, June 30, 2021	<u>\$112,382</u>

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

This clarification had the following effect on net position as reported at June 30, 2021:

	Governmental Activities
Net Position, June 30, 2021, as previously reported	(\$28,216,890)
Adjustments:	
Change in Intergovernmental Receivables	<u>(43,219)</u>
Restated Net Position, June 30, 2021	<u><u>(\$28,260,109)</u></u>

Note 20 – Implementation of New Accounting Principles

For fiscal year 2022, the Center implemented GASB Statement No. 87, Leases and related guidance from (GASB) Implementation Guide No. 2019-3, and GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period.

GASB Statement No. 87 sets out to improve the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Effect on Previously Reported Net Position The implementation of the GASB 87 pronouncement had no net effect on the net position as reported at June 30, 2021:

Net Position, June 30, 2021	(\$28,260,109)
Adjustments-Presentation Changes:	
Leased Assets	804,447
Lease Liability	<u>(804,447)</u>
Restated Net Position, June 30, 2021	<u><u>(\$28,260,109)</u></u>

GASB Statement No. 89 establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

governmental fund accounting principles. The implementation of GASB Statement No. 89 did not have an effect on the financial statements of the Center.

Note 21 – 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 2022, the School District received COVID-19 funding. The financial impact of COVID-19 and the continuing recovery measures may impact subsequent periods of the School District. The impact on the School District's future operating costs, revenues, and additional recovery from funding, either federal or state, cannot be estimated.

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REQUIRED SUPPLEMENTARY INFORMATION

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Proportionate Share of the Net Pension Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1) (2)

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.10780250%	\$3,977,600	\$3,737,979	106.41%	82.86%
2021	0.11760230%	7,778,465	4,017,200	193.63%	68.55%
2020 (a)	0.13246550%	7,925,643	4,536,126	174.72%	70.85%
2019 (b)	0.13742500%	7,870,584	4,467,075	176.19%	71.36%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

(2) Amounts presented as of the Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Contributions for Net Pension Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1)

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2022	\$592,881	(\$592,881)	\$0	\$4,234,864	14.00%
2021	523,317	(523,317)	0	3,737,979	14.00%
2020 (a)	562,408	(562,408)	0	4,017,200	14.00%
2019 (b)	612,377	(612,377)	0	4,536,126	13.50%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Proportionate Share of the Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1) (2)

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2022	0.06145666%	\$7,857,786	\$7,064,879	111.22%	87.78%
2021	0.06745142%	16,320,844	7,567,329	215.68%	75.50%
2020 (a)	0.07805754%	17,261,956	9,026,500	191.24%	77.40%
2019 (b)	0.09242855%	20,322,963	10,249,364	198.29%	77.30%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

(2) Amounts presented as of the Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Contributions for Net Pension Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1)

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2022	\$1,141,031	(\$1,141,031)	\$0	\$8,150,221	14.00%
2021	989,083	(989,083)	0	7,064,879	14.00%
2020 (a)	1,059,426	(1,059,426)	0	7,567,329	14.00%
2019 (b)	1,263,710	(1,263,710)	0	9,026,500	14.00%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Proportionate Share of the Net OPEB Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1) (2)

Year	Center's Proportion of the Net OPEB Liability	Center's Proportionate Share of the Net OPEB Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2022	0.10992730%	\$2,080,464	\$3,737,979	55.66%	24.08%
2021	0.11993140%	2,606,502	4,017,200	64.88%	18.17%
2020 (a)	0.13347040%	3,356,500	4,536,126	73.99%	15.57%
2019 (b)	0.13850100%	3,842,392	4,467,075	86.02%	13.57%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

(2) Amounts presented as of the Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Contributions for Net OPEB Liability
 School Employees Retirement System of Ohio
 Last Four Fiscal Years (1) (2)

Year	Center's Contractually Required Contribution (2)	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2022	\$67,751	(\$67,751)	\$0	\$4,234,864	1.60%
2021	64,934	(64,934)	0	3,737,979	1.74%
2020 (a)	67,094	(67,094)	0	4,017,200	1.67%
2019 (b)	92,288	(92,288)	0	4,536,126	2.03%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

(2) Includes surcharge.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Proportionate Share of the Net OPEB (Asset)/Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1) (2)

Year	Center's Proportion of the Net OPEB (Asset)/Liability	Center's Proportionate Share of the Net OPEB (Asset)/Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability
2022	0.06145666%	(\$1,295,763)	\$7,064,879	(18.34%)	174.73%
2021	0.06745142%	(1,185,458)	7,567,329	(15.67%)	182.13%
2020 (a)	0.07805754%	(1,292,820)	9,026,500	(14.32%)	174.74%
2019 (b)	0.09242855%	(1,485,232)	10,249,364	(14.49%)	176.00%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

(2) Amounts presented as of the Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Required Supplementary Information
 Schedule of the Center's Contributions for Net OPEB (Asset)/Liability
 State Teachers Retirement System of Ohio
 Last Four Fiscal Years (1) (2)

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2022	\$0	\$0	\$0	\$8,150,221	0.00%
2021	0	0	0	7,064,879	0.00%
2020 (a)	0	0	0	7,567,329	0.00%
2019 (b)	0	0	0	9,026,500	0.00%

(a) For the six months ended June 30, 2020.

(b) Fiscal year 2019 for Geauga County ESC and Lake County ESC.

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2019 is not available.

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2022

	Lake County School Financing District Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,024,114	\$5,432,198	\$5,432,198	\$0
Intergovernmental	497,289	537,681	537,681	0
Total Revenues	5,521,403	5,969,879	5,969,879	0
Expenditures:				
Current:				
Support Services:				
General Administration	5,521,403	5,969,879	5,969,879	0
Total Expenditures	5,521,403	5,969,879	5,969,879	0
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year/Period, Restated (includes prior year encumbrances appropriated)	335,818	335,818	335,818	0
Fund Balance - End of Year/Period	\$335,818	\$335,818	\$335,818	\$0

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

Note 1 – Budgetary Process

The Educational Service Center of the Western Reserve (Center), with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education.

The budgetary process described below applies specifically to the Educational Service Center of the Western Reserve and is not applicable to the Lake County School Financing District Fund.

The Center has an annual appropriation for the funds of the Educational Service Center of the Western Reserve and the Treasurer uses it to set annual limits on expenditures plus encumbrances at the fund level. The appropriation is subject to changes throughout the year with the restriction that appropriations may not exceed resources by fund. The budget is employed as a management control device during the year for all funds.

The budget process described below applies to the Lake County School Financing District Fund of the Educational Service Center of the Western Reserve.

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District as a special revenue fund and is not applicable to the Educational Service Center of the Western Reserve.

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 fiscal year.

The county budget commission certifies its actions to the Center by March 1. As part of this certification, the Center receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Center must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter appropriations within a fund must be approved by the Board of Education.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during the fiscal year.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

Net Change in Fund Balances

	Lake County School Financing District
GAAP Basis	\$0
Revenue Accruals	0
Budget Basis	<u>\$0</u>

Note 2 - Net Pension Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

2022: Cost of Living Adjustments (COLA) increased from 0.50% to 2.50%.

2020-2021: There were no changes in benefit terms from the amounts reported for this fiscal year.

2019: With the authority granted the Board under Senate Bill 8, the Board has enacted a three year COLA delay for future benefit recipients commencing benefits on or after April 1, 2018.

2018: SERS changed from a fixed 3.00% annual increase to a Cost of Living Adjustments (COLA) based on the changed in the Consumer Price Index Index (CPI-W), with a cap of 2.50% and a floor of 0.00%.

2014-2017: There were no changes in benefit terms from the amounts reported for these fiscal years.

Changes in Assumptions:

2022: The following changes of assumptions affected the total pension liability since the prior measurement date:

- (1) The assumed rate of inflation was reduced from 3.00% to 2.40%,
- (2) Payroll growth assumption was reduced from 3.50% to 1.75%,
- (3) Assumed real wage growth was increased from 0.50% to 0.85%,
- (4) Cost of Living Adjustments (COLA) was reduced from 2.50% to 2.00%,
- (5) The discount rate was reduced from 7.50% to 7.00%,
- (6) Rates of withdrawal, compensation, participation, spouse coverage assumption, retirement, and disability were updated to reflect recent experience, and,
- (7) Mortality among active members, service retirees and beneficiaries, and disabled members were updated.

2018-2021: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.

2017: The following changes of assumptions affected the total pension liability since the prior measurement date:

- (1) The assumed rate of inflation was reduced from 3.25% to 3.00%,
- (2) Payroll growth assumption was reduced from 4.00% to 3.50%,
- (3) Assumed real wage growth was reduced from 0.75% to 0.50%,
- (4) Rates of withdrawal, retirement and disability were updated to reflect recent experience,

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

- (5) Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females,
- (6) Mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates,
- (7) Mortality among disabled members was updated to 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, and
- (8) The discount rate was reduced from 7.75% to 7.50%.

2014-2016: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

2019-2022: There were no changes in benefit terms from the amounts reported for these fiscal years.

2018: STRS decreased the Cost of Living Adjustment (COLA) to zero.

2014-2017: There were no changes in benefit terms from the amounts reported for these fiscal years.

Changes in Assumptions:

2022: There were changes in assumptions since the prior measurement date, which the discount rate was adjusted to 7.00% from 7.45%.

2019-2021: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.

2018: The following changes of assumptions affected the total pension liability since the prior measurement date:

- (1) The long term expected rate of return was reduced from 7.75% to 7.45%,
- (2) The inflation assumption was lowered from 2.75% to 2.50%,
- (3) The payroll growth assumption was lowered to 3.00%,
- (4) Total salary increases rate was lowered by decreasing the merit component of the individual salary increases, in addition to a decrease of 0.25% due to lower inflation,
- (5) The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016, and
- (6) Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

2014-2017: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

Note 3 - Net OPEB (Asset)/Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

2017-2022: There were no changes in benefit terms from the amounts reported for these fiscal years.

Changes in Assumptions:

2022: Amounts reported for the fiscal year incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

- (1) Discount Rate:

Prior Measurement Date	2.63%
Measurement Date	2.27%
- (2) Investment Rate of Return:

Prior Measurement Date	7.50%
Measurement Date	7.00%
- (3) Assumed Rate of Inflation:

Prior Measurement Date	3.00%
Measurement Date	2.40%
- (4) Payroll Growth Assumption:

Prior Measurement Date	3.50%
Measurement Date	1.75%
- (5) Assumed Real Wage Growth:

Prior Measurement Date	0.50%
Measurement Date	0.85%
- (6) Municipal Bond Index Rate:

Prior Measurement Date	2.45%
Measurement Date	1.92%
- (7) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	2.63%
Measurement Date	2.27%
- (8) Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- (9) Rate of health care participation for future retirees and spouses was updated to reflect recent.
- (10) Mortality among active members was updated to the following:
 - a. PUB-2010 General Amount Weighted Below Median Employee mortality table.
- (11) Mortality among service retired members was updated to the following:
 - a. PUB-2010 General Employee Amount Weighted Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females.
- (12) Mortality among beneficiaries was updated to the following:
 - a. PUB-2010 General Amount Weighted Below Median Contingent Survivor mortality table projected to 2017 with ages set forward 1 year and adjusted 105.5% for males and adjusted 122.5% for females.
- (13) Mortality among disabled member was updated to the following:
 - a. PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3% for males and set forward 3 years and adjusted 106.8% for females.
- (14) Mortality rates are projected using a fully generational projection with Scale MP-2020.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

2021: Amounts reported for the fiscal year incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

- (1) Discount Rate:
 - Prior Measurement Date 3.22%
 - Measurement Date 2.63%
- (2) Municipal Bond Index Rate:
 - Prior Measurement Date 3.13%
 - Measurement Date 2.45%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
 - Prior Measurement Date 3.22%
 - Measurement Date 2.63%

2020: Amounts reported for the fiscal year incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

- (1) Discount Rate:
 - Prior Measurement Date 3.70%
 - Measurement Date 3.22%
- (2) Municipal Bond Index Rate:
 - Prior Measurement Date 3.62%
 - Measurement Date 3.13%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
 - Prior Measurement Date 3.70%
 - Measurement Date 3.22%

2019: Amounts reported for the fiscal year incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

- (1) Discount Rate:
 - Prior Measurement Date 3.63%
 - Measurement Date 3.70%
- (2) Municipal Bond Index Rate:
 - Prior Measurement Date 3.56%
 - Measurement Date 3.62%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
 - Prior Measurement Date 3.63%
 - Measurement Date 3.70%

2018: Amounts reported for the fiscal year incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

- (1) Discount Rate:
 - Fiscal Year 2018 3.63%
 - Fiscal Year 2017 2.98%

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

- (2) Municipal Bond Index Rate:
- | | |
|------------------|-------|
| Fiscal Year 2018 | 3.56% |
| Fiscal Year 2017 | 2.92% |
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
- | | |
|------------------|-------|
| Fiscal Year 2018 | 3.63% |
| Fiscal Year 2017 | 2.98% |

2017: The following changes of assumptions affected the total OPEB liability since the prior measurement date:

- (1) The assumed rate of inflation was reduced from 3.25% to 3.00%,
- (2) Payroll growth assumption was reduced from 4.00% to 3.50%,
- (3) Assumed real wage growth was reduced from 0.75% to 0.50%,
- (4) Rates of withdrawal, retirement and disability were updated to reflect recent experience,
- (5) Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females,
- (6) Mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, and
- (7) Mortality among disabled members was updated to 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.

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

2022: The non-Medicare subsidy percentage was increased effective January 1, 2022 from 2.055% to 2.100%. The non-Medicare frozen subsidy base premium was increased effective January 1, 2022. The Medicare Part D subsidy was updated to reflect it is expected to be negative in CY2022. The Part B monthly reimbursement elimination date was postponed indefinitely.

2021: 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.

2020: There was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944% to 1.984% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

2019: The subsidy multiplier for non-Medicare benefit recipients was increased from 1.900% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. The Board is extending the current Medicare Part B partial

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2022

reimbursement program for one year. Under this program, benefit recipients currently enrolled in the STRS Ohio Health Care Program and Medicare Part B receive \$29.90 per month to reimburse a portion of the Medicare Part B premium. The reimbursement was set to be reduced to \$0 beginning January 1, 2020. This impacts about 85,000 benefit recipients.

2018: The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.10% to 1.90% per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2019.

2017: There were no changes in benefit terms from the amounts reported for this fiscal year.

Changes in Assumptions:

2022: There were changes in assumptions since the prior measurement date, which the discount rate was adjusted to 7.00% from 7.45%.

2021: There were changes in assumptions during the measurement year, which decreased the total OPEB liability by approximately \$0.26 billion. The assumption changes included changes in healthcare costs and trends.

2020: There were changes in assumptions during the measurement year, which increased the total OPEB liability by approximately \$0.04 billion. The assumption changes included changes in healthcare costs and trends.

2019: The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

2018: The discount rate was increased from 3.26% to 4.13% based on the methodology defined under GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB) and the long term expected rate of return was reduced from 7.75% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

2017: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for this fiscal year.

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**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Expenditures
<u>U.S. Department of Education</u>		
<i>Passed through Ohio Department of Education</i>		
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	\$ 913,757
Special Education - Grants to States - Restoration	84.027	32,416
Special Education - Grants to States - Early Literacy SSIP (IDEA)	84.027	87,454
Special Education - Grants to States - Parent Mentor Project	84.027	23,074
Special Education - Grants to States - ARP IDEA	84.027	27,842
Special Education - Preschool Grants	84.173	155,454
Special Education - Preschool Grants - Early Literacy SSIP (ELSR)	84.173	27,091
Total Special Education Cluster		<u>1,267,088</u>
 Title I - Grants to Local Educational Agencies	 84.010	 <u>7,340</u>
 Special Education - State Personnel Development	 84.323	 <u>3,896</u>
 English Language Acquisition State Grants	 84.365	 <u>98,104</u>
 Improving Teacher Quality State Grants	 84.367	 <u>7,982</u>
 Education Stabilization Fund -		
Governors Emergency Education Relief Fund	84.425C	195,966
ESSER ESC Family Engagement Liaisons	84.425D	53,254
Extended Learning and Recovery	84.425D	192,760
Support Structured Literacy	84.425D	6,500
RemoteDx OCER Department Match	84.425D	82,165
Total ALN #84.425		<u>530,645</u>
Total Passed through Ohio Department of Education		<u>1,915,055</u>
 <i>Direct Award</i>		
Rural Education	84.358	25,675
Total U.S. Department of Education		<u>1,940,730</u>
<u>U.S. Department of Health and Human Services</u>		
<i>Passed through Ohio Department of Health and Human Services</i>		
Teenage Pregnancy Prevention Program	93.297	108,801
 Block Grants for Prevention and Treatment of Substance Abuse		
Community Prevention Grant (SAPT)	93.959	80,000
Regional Collaborative (RLC)	93.959	24,833
Total ALN #93.959		<u>104,833</u>
Total U.S. Department of Health and Human Services		<u>213,634</u>
<u>U.S. Department of the Treasury</u>		
<i>Passed through Ohio Department of Education</i>		
Coronavirus Relief Fund - Broadband Ohio Connectivity	21.019	2,809
Total U.S. Department of the Treasury		<u>2,809</u>
<u>Institute of Museum and Library Services</u>		
<i>Passed through Ohio Department of Education</i>		
Grants to States - Libraries	45.310	1,537
Total Institute of Museum and Library Services		<u>1,537</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,158,710</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Educational Service Center of the Western Reserve under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Educational Service Center of the Western Reserve, it is not intended to and does not present the financial position, changes in net position or cash flows of the Educational Service Center of the Western Reserve.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3: INDIRECT COST RATE

The Educational Service Center of the Western Reserve has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Educational Service Center of the Western Reserve
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

To the Members of the Governing Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated March 20, 2023, wherein we noted the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. We also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center. Also, the Center restated its net position and fund balance to treat federal grants received via the Ohio Department of Education as reimbursable grants.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

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

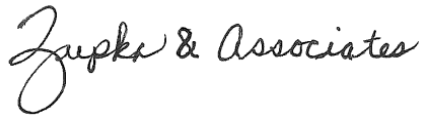
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Zupka & Associates
Certified Public Accountants

March 20, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Educational Service Center of the Western Reserve
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

To the Members of the Governing Board:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Educational Service Center of the Western Reserve, Lake County, Ohio's (the Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2022. The Center's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Educational Service Center of the Western Reserve complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted an audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Educational Service Center of the Western Reserve, and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Educational Service Center of the Western Reserve's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements to the Educational Service Center of the Western Reserve's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Educational Service Center of the Western Reserve's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Educational Service Center of the Western Reserve's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Educational Service Center of the Western Reserve's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Educational Service Center of the Western Reserve's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Educational Service Center of the Western Reserve's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Zupka & Associates
Certified Public Accountants

March 20, 2023

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNIFORM GUIDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

1. **SUMMARY OF AUDITOR'S RESULTS**

2022(i)	Type of Financial Statement Opinion	Unmodified
2022(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2022(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2022(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2022(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2022(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2022(v)	Type of Major Programs' Compliance Opinions	Unmodified
2022(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2022(vii)	Major Programs (list): Special Education Cluster (IDEA) - ALN #84.027 and #84.173	
2022(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others less than \$750,000
2022(ix)	Low Risk Auditee?	Yes

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

None.

3. **FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022**

The prior issued audit report, as of June 30, 2021, included a significant deficiency.

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2021-001	Financial Reporting	Partially Corrected	Repeated as management comment

OHIO AUDITOR OF STATE KEITH FABER



EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE

LAKE 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 5/4/2023

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