



**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY
JUNE 30, 2020**

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INDEPENDENT AUDITOR'S REPORT

Mercer County Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, as of June 30, 2020, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Emphasis of Matter

As discussed in Note 3.A to the financial statements, during 2020, the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

As discussed in Note 15 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. We did not modify our opinion regarding this matter.

As discussed in Note 3.B to the financial statements, during 2020, the Educational Service Center restated its beginning fund balances and net positions due to an improper fund classification. We did not modify our opinion regarding this matter.

Other Matters

Supplementary Information

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

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2021, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

January 5, 2021

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**MERCER COUNTY ESC
MERCER COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2020

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 2,038,395
Total assets.	\$ 2,038,395
 Net position:	
Restricted for:	
State funded programs.	\$ 98,268
Other purposes	12,915
Unrestricted	1,927,212
Total net cash position.	\$ 2,038,395

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER COUNTY ESC
MERCER COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Position Governmental Activities
		Charges for Services and Sales	Operating Grants and Contributions	
Governmental activities:				
Instruction:				
Regular	\$ 22,733	\$ 1,447	\$ 1,800	\$ (19,486)
Special	3,143,603	2,238,034	865,153	(40,416)
Support services:				
Pupil	1,489,052	1,375,667	186,564	73,179
Instructional staff	533,019	522,586	-	(10,433)
Governing Board	16,734	16,406	-	(328)
Administration	274,895	269,515	-	(5,380)
Fiscal	194,882	191,068	-	(3,814)
Business	5,685	5,574	-	(111)
Operations and maintenance	41,601	40,787	-	(814)
Pupil transportation	2,516	2,467	-	(49)
Central	39,258	38,490	-	(768)
Operation of non-instructional services:				
Other non-instructional services	1,590	-	2,470	880
Total governmental activities	\$ 5,765,568	\$ 4,702,041	\$ 1,055,987	(7,540)
General receipts:				
Grants and entitlements not restricted to specific programs				335,303
Investment earnings				22,352
Miscellaneous				4,608
Total general receipts				362,263
Change in net position				354,723
Net position at beginning of year (restated)				1,683,672
Net position at end of year				\$ 2,038,395

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER COUNTY ESC
MERCER COUNTY, OHIO**

STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2020

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:			
Equity in pooled cash and cash equivalents.	\$ 1,925,888	\$ 112,507	\$ 2,038,395
Total assets	<u>\$ 1,925,888</u>	<u>\$ 112,507</u>	<u>\$ 2,038,395</u>
Fund balances:			
Nonspendable:			
Unclaimed monies	\$ 2,034	\$ -	\$ 2,034
Restricted:			
Scholarships	-	5,869	5,869
STEM education.	-	5,256	5,256
Discovery education	-	1,790	1,790
State funded programs	-	98,268	98,268
Committed:			
Future severance payments.	36,531	-	36,531
Staff wellness.	-	1,324	1,324
Educational activities	41,441	-	41,441
Assigned:			
Instruction	25,853	-	25,853
Support services.	89,920	-	89,920
Unassigned	1,730,109	-	1,730,109
Total fund balances	<u>\$ 1,925,888</u>	<u>\$ 112,507</u>	<u>\$ 2,038,395</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER COUNTY ESC
MERCER COUNTY, OHIO**

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	<u>General</u>	<u>Part B - IDEA</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Receipts:				
From local sources:				
Tuition	\$ 4,498,014	\$ -	\$ -	\$ 4,498,014
Earnings on investments	22,352	-	-	22,352
Charges for services	28,260	-	-	28,260
Classroom materials and fees	66,285	-	-	66,285
Contributions and donations	-	-	3,795	3,795
Contract services	109,482	-	-	109,482
Other local revenues	4,608	-	-	4,608
Intergovernmental - state	335,303	-	187,039	522,342
Intergovernmental - federal	-	777,181	87,972	865,153
Total receipts	<u>5,064,304</u>	<u>777,181</u>	<u>278,806</u>	<u>6,120,291</u>
Disbursements:				
Current:				
Instruction:				
Regular	1,476	-	21,257	22,733
Special	2,282,714	778,241	82,648	3,143,603
Support services:				
Pupil	1,403,130	-	85,922	1,489,052
Instructional staff	533,019	-	-	533,019
Governing board	16,734	-	-	16,734
Administration	274,895	-	-	274,895
Fiscal	194,882	-	-	194,882
Business	5,685	-	-	5,685
Operations and maintenance	41,601	-	-	41,601
Pupil transportation	2,516	-	-	2,516
Central	39,258	-	-	39,258
Operation of non-instructional services:				
Other operation of non-instructional	-	-	1,590	1,590
Total disbursements	<u>4,795,910</u>	<u>778,241</u>	<u>191,417</u>	<u>5,765,568</u>
Excess (deficiency) of receipts over (under) disbursements	<u>268,394</u>	<u>(1,060)</u>	<u>87,389</u>	<u>354,723</u>
Other financing sources (uses):				
Advances in	30,179	31,239	-	61,418
Advances (out)	<u>(31,239)</u>	<u>(30,179)</u>	<u>-</u>	<u>(61,418)</u>
Total other financing sources (uses)	<u>(1,060)</u>	<u>1,060</u>	<u>-</u>	<u>-</u>
Net change in fund balances	267,334	-	87,389	354,723
Fund balances at beginning of year (restated) . .	<u>1,658,554</u>	<u>-</u>	<u>25,118</u>	<u>1,683,672</u>
Fund balances at end of year	<u>\$ 1,925,888</u>	<u>\$ -</u>	<u>\$ 112,507</u>	<u>\$ 2,038,395</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER COUNTY ESC
MERCER COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND NET POSITION
CUSTODIAL FUND
JUNE 30, 2020

	<u>Custodial</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 10,360
Total assets.	<u>\$ 10,360</u>
Net position:	
Restricted for individuals, organizations and other governments . .	<u>\$ 10,360</u>
Total net position.	<u>\$ 10,360</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER COUNTY ESC
MERCER COUNTY, OHIO**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CASH BASIS
CUSTODIAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Custodial
Additions:	
From local sources:	
Amounts held for WOAN	\$ 20,720
Amounts held for Districts	21,500
Total additions.	42,220
Deductions:	
Distributions on behalf of WOAN	20,561
Distributions to Districts	21,500
Total deductions	42,061
Change in net position	159
Net position at beginning of year (restated)	10,201
Net position at end of year	\$ 10,360

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE 1 - DESCRIPTION OF THE SERVICE CENTER AND REPORTING ENTITY

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

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

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

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

The Service Center participates in one jointly governed organization and three insurance purchasing pools. These organizations are the Northwest Ohio Area Computer Services Cooperative, the Schools of Ohio Risk Sharing Authority, the Sheakley Uniservice, Inc. Workers' Compensation Group Rating Program, and the Mercer Auglaize Employee Benefit Trust. These organizations are presented in Notes 10 and 11 to the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Accounting

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

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

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

B. Basis of Presentation - Fund Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

The Statement of Net Position presents the financial condition of the governmental activities of the Service Center at year-end. The Statement of Activities presents a comparison between direct disbursements and program receipts for each program or function of the Service Center's governmental activities. Direct disbursements are those that are specifically associated with a service, program or department, and therefore, clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Receipts which are not classified as program receipts are presented as general receipts of the Service Center with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing or draws from the general resources of the Service Center. Governmental activities generally are financed through intergovernmental receipts and other non-exchange receipts.

FUND FINANCIAL STATEMENTS

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

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

- a. Total assets, receipts, or disbursements of that individual governmental fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, receipts, or disbursements of the individual governmental fund are at least 5 percent of the corresponding total for all governmental funds.

The funds of the financial reporting entity are described below:

Governmental Funds/Governmental Activities

Governmental funds are those through which all governmental functions of the Service Center are financed. The following are the Service Center's major governmental funds for fiscal year 2020:

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

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

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

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Service Center's fiduciary funds include custodial funds. Custodial funds are custodial in nature. The Service Center's custodial funds include the Honda Lego fund and the Superintendent Network. The Service Center acts as both fiscal and administrative agent for all programs.

C. Budgetary Process

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

D. Cash and Cash Equivalents

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

During fiscal year 2020, the Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, Certain External Investment Pools and Pool Participants. The Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Total interest receipts credited to the General Fund during fiscal year 2020 were \$22,352, which includes \$945 assigned from other funds.

E. Restricted Assets

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

F. Capital Assets

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

G. Accumulated Leave

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

H. Long-Term Debt

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

I. Intergovernmental Receipts

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

J. Inventory and Prepaid Items

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

K. Pass-Through Grants

The Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2020, these funds included the Special Education Grants to States (Part B-IDEA), Special Education Preschool Grant, Title III Grant and miscellaneous State and federal grants. The intergovernmental disbursements have been allocated to the programs on the entity-wide statement of activities.

L. Interfund Transactions

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

1. Transfers of resources from one fund to another fund through which resources are to be disbursed are recorded as transfers.
2. Reimbursements from one fund to another are treated as disbursements in the reimbursing fund and a reduction in disbursements in the reimbursed fund.

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

M. Employer Contributions to Cost-Sharing Pension Plans

The Service Center recognizes disbursements for employer contributions to cost-sharing plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

N. Equity Classifications

GOVERNMENT-WIDE STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

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

- a. Non-spendable - The non-spendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The “not in spendable form” includes items that are not expected to be converted to cash.
- b. Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions.
- c. Committed - The committed classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Governing Board. The committed amounts cannot be used for any other purpose unless the Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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

- d. Assigned - Amounts in the assigned classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board. The Governing Board has by resolution authorized the Treasurer to assign fund balance.
- e. Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

O. Receipts and Disbursements

Program Receipts

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

Disbursements

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

P. Pensions and Other Postemployment Benefits (OPEB)

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2020, the Service Center has implemented GASB Statement No. 84, "Fiduciary Activities" and GASB Statement No. 90, "Majority Equity Interests - an amendment to GASB Statements No. 14 and No. 61".

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the Service Center will no longer be reporting agency funds. These fund reclassifications resulted in the restatement of the Service Center's financial statements.

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FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 90 improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the Service Center.

B. Restatement of Net Position and Fund Balances

The Educational Service Center restated beginning fund balances at June 30, 2019 due to an improper fund classification:

	<u>General</u>	<u>Part B - IDEA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balance as previously reported	\$ 1,658,554	\$ -	\$ 20,129	\$ 1,678,683
Fund Misclassification	<u>-</u>	<u>-</u>	<u>4,989</u>	<u>4,989</u>
Restated Fund Balance, at June 30, 2019	<u>\$ 1,658,554</u>	<u>\$ -</u>	<u>\$ 25,118</u>	<u>\$ 1,683,672</u>

The Educational Service Center restated beginning net position at June 30, 2019 due to an improper fund classification:

	<u>Governmental Activities</u>
Net position as previously reported	\$ 1,678,683
Fund Misclassification	<u>4,989</u>
Restated net position at June 30, 2019	<u>\$ 1,683,672</u>

Due to the implementation of GASB Statement No.84, the new classification of custodial funds is reporting a beginning net position of \$10,201. Also, related to the implementation of GASB Statement No. 84, the Service Center will no longer be reporting agency funds. At June 30, 2019, agency funds reported assets and liabilities of \$10,201.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

C. Compliance

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

NOTE 4 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes debentures or any other obligations or security issued by any federal government agency or instrumentality, including but not limited to the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily and that the term of the agreement must not exceed thirty days;

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NOTE 4 – DEPOSITS AND INVESTMENTS - (Continued)

4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days and two hundred and seventy days, respectively, from the date of purchase in an amount not to exceed forty percent of the interim monies available for investment at any one time; and
8. Under certain circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center and must be purchased with the expectation that it will be held to maturity. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

At June 30, 2020, the carrying amount of all ESC deposits was \$713,561 and the bank balance of all ESC deposits was \$714,908. Of the bank balance, the entire amount was covered by the FDIC.

Custodial Credit Risk

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 4 – DEPOSITS AND INVESTMENTS - (Continued)

Investments

As of June 30, 2020 the Service Center had the following investment and maturity:

<u>Investment Type</u>	<u>Cost</u>	<u>Investment Maturity 6 Months or less</u>	<u>Percent of Total</u>
STAR Ohio	<u>\$ 1,335,194</u>	<u>\$ 1,335,194</u>	<u>100%</u>

Interest Rate Risk.

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

STAR Ohio is an investment pool operated by the Ohio State Treasurer. It is unclassified since it is not evidenced by securities that exist in physical or book entry form. Ohio law requires STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The weighted average of maturity of the portfolio held by STAR Ohio as of June 30, 2020 is 42 days and, carries a rating of AAAM by S&P Global Ratings.

Concentration of Credit Risk.

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

NOTE 5 – PRIMARY RECEIPT SOURCES

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

A. State Foundation Distributions - Amounts Paid by the State

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 5 – PRIMARY RECEIPT SOURCES - (Continued)

B. State Foundation Distributions

1. Amounts Paid by the Local Service Centers

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

2. Amounts Paid under Contract by Local Service Centers

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

NOTE 6 – RISK MANAGEMENT

A. Medical Benefits

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

B. Workers' Compensation

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

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

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NOTE 6 - RISK MANAGEMENT - (Continued)

C. Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For fiscal year 2020, the Service Center participated in the Schools of Ohio Risk Sharing Authority (SORSA), an insurance purchasing pool. Each participant enters into an individual agreement with the SORSA for insurance coverage and pays annual premiums to the SORSA based on the types and limits of coverage and deductibles selected by the participant.

For fiscal year 2020, the Service Center contracted for the following insurance coverage through Schools of Ohio Risk Sharing Authority:

Property	
Building and Business (No deductible)	\$ 2,238,915
Earth Movement Limit (\$50,000 deductible)	2,000,000
Flood Limit (\$50,000 deductible)	2,000,000
Equipment Breakdown (No deductible)	2,238,915
Ammonia Contamination (No deductible)	250,000
Any Other Substance Contamination (No deductible)	250,000
Water Damage, in any one accident (No deductible)	250,000
Consequential Damage, in any one accident (No deductible)	250,000
Crime Coverage	
Employee Theft Including Faithful Performance of Duty (No deductible)	1,000,000
Forgery or Alteration (No deductible)	1,000,000
On Premises (No deductible)	1,000,000
In Transit (No deductible)	1,000,000
Money Orders and Counterfeit Money (No deductible)	1,000,000
Computer Crime (No deductible)	1,000,000
Computer Program and Electronic Data Restoration Expense (No deductible)	350,000
Funds Transfer Fraud (No deductible)	1,000,000
Social Engineering Fraud (No deductible)	1,000,000
General Liability	
Bodily Injury and Property Damage (No deductible)	15,000,000
Personal Injury/Advertising Liability (No deductible)	15,000,000
Products/Completed Operations (No deductible)	15,000,000
Employers Stop Gap Liability	
Bodily Injury by Accident (Per Accident) (No deductible)	15,000,000
Bodily Injury by Disease (Policy Limit) (No deductible)	15,000,000
Bodily Injury by Disease (Per Employee) (No deductible)	15,000,000
General Annual Aggregate	17,000,000
Fire Legal Liability	500,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000 / 25,000
Educators Legal Liability	
Wrongful Acts Coverage Per Occurrence (No deductible)	15,000,000
Wrongful Acts Coverage Aggregate	15,000,000
Automobile Liability and Physical Damage	
Bodily Injury & Property Damage (Per Occurrence) (No deductible)	15,000,000
Medical Payments (Occurrence/Aggregate) (No deductible)	10,000 / 25,000
Automobile Physical Damage (No deductible)	ACV
Garagekeepers Physical Damage (No deductible)	ACV (Maximum \$500,000)

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NOTE 6 - RISK MANAGEMENT - (Continued)

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire after August 1, 2017
Full benefits	Age 65 with 5 years of services credit; or Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially reduced benefits	Age 60 with 5 years of service credit; or Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

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

Effective January 1, 2018, SERS cost-of-living adjustment (COLA) changed from a fixed 3% annual increase to one based on the Consumer Price Index (CPI-W) with a cap of 2.5% and a floor of 0%. SERS also has the authority to award or suspend the COLA, or to adjust the COLA above or below CPI-W. SERS suspended the COLA increases for 2018, 2019 and 2020 for current retirees, and confirmed their intent to implement a four-year waiting period for the state of a COLA for future retirees.

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the Service Center is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0%.

The Service Center's contractually required contribution to SERS was \$151,321 for fiscal year 2020.

Plan Description - State Teachers Retirement System (STRS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 28 years of service, or 33 years of service regardless of age. 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.

The DC Plan allows members to place all their member contributions and 9.53% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14% member rate goes to the DC Plan and the remaining 2% is applied to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2020, plan members were required to contribute 14% of their annual covered salary. The Service Center was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The Service Center's contractually required contribution to STRS was \$364,018 for fiscal year 2020.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Net Pension Liability

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

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.03507780%	0.02256770%	
Proportion of the net pension liability current measurement date	<u>0.03133490%</u>	<u>0.02109753%</u>	
Change in proportionate share	<u>-0.00374290%</u>	<u>-0.00147017%</u>	
Proportionate share of the net pension liability	\$ 1,874,822	\$ 4,665,592	\$ 6,540,414

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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2019, are presented below:

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

For 2019, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease	Current Discount Rate	1% Increase
Service Center's proportionate share of the net pension liability	\$ 2,627,296	\$ 1,874,822	\$ 1,243,778

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation are presented below:

	July 1, 2019
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.00%

For the July 1, 2019, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Service Center's proportionate share of the net pension liability	\$ 6,818,243	\$ 4,665,592	\$ 2,843,263

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NOTE 8 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

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

The net OPEB liability/asset represents the Service Center's proportionate share of each OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan's fiduciary net position. The net OPEB 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.

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

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

Plan Description - School Employees Retirement System (SERS)

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2020, SERS did not allocate any employer contributions to post-employment health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, prorated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Service Center's surcharge obligation was \$20,178.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Service Center's contractually required contribution to SERS was \$20,178 for fiscal year 2020.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

Net OPEB Liability/Asset

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net OPEB liability/asset prior measurement date	0.03558800%	0.02256770%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.03222120%</u>	<u>0.02109753%</u>	
Change in proportionate share	<u>-0.00336680%</u>	<u>-0.00147017%</u>	
Proportionate share of the net OPEB liability	\$ 810,295	\$ -	\$ 810,295
Proportionate share of the net OPEB asset	\$ -	\$ (349,426)	\$ (349,426)

Actuarial Assumptions - SERS

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019 are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.13%
Prior measurement date	3.62%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.22%
Prior measurement date	3.70%
Medical trend assumption:	
Measurement date	
Medicare	5.25 to 4.75%
Pre-Medicare	7.00 to 4.75%
Prior measurement date	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22%. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13%, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.62% was used as of June 30, 2018. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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

	1% Decrease	Current Discount Rate	1% Increase
Service Center's proportionate share of the net OPEB liability	\$ 983,545	\$ 810,295	\$ 672,542

	1% Decrease	Current Trend Rate	1% Increase
Service Center's proportionate share of the net OPEB liability	\$ 649,211	\$ 810,295	\$ 1,024,016

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, compared with July 1, 2018, are presented below:

	July 1, 2019		July 1, 2018	
	Initial	Ultimate	Initial	Ultimate
Inflation	2.50%		2.50%	
Projected salary increases	12.50% at age 20 to 2.50% at age 65		12.50% at age 20 to 2.50% at age 65	
Investment rate of return	7.45%, net of investment expenses, including inflation		7.45%, net of investment expenses, including inflation	
Payroll increases	3.00%		3.00%	
Cost-of-living adjustments (COLA)	0.00%		0.00%	
Discounted rate of return	7.45%		7.45%	
Blended discount rate of return	N/A		N/A	
Health care cost trends				
Medical				
Pre-Medicare	5.87%	4.00%	6.00%	4.00%
Medicare	4.93%	4.00%	5.00%	4.00%
Prescription Drug				
Pre-Medicare	7.73%	4.00%	8.00%	4.00%
Medicare	9.62%	4.00%	-5.23%	4.00%

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

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

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

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

Benefit Term Changes Since the Prior Measurement Date - 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

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

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

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2019.

Sensitivity of the Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease	Current Discount Rate	1% Increase
	Service Center's proportionate share of the net OPEB asset	\$ 298,165	\$ 349,426

	1% Decrease	Current Trend Rate	1% Increase
	Service Center's proportionate share of the net OPEB asset	\$ 396,233	\$ 349,426

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 9 - OTHER EMPLOYEE BENEFITS

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

NOTE 10 – JOINTLY GOVERNED ORGANIZATIONS

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

NOTE 11 – INSURANCE PURCHASING POOLS

A. Schools of Ohio Risk Sharing Authority

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

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

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

C. Mercer Auglaize Employee Benefit Trust

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 11 – INSURANCE PURCHASING POOLS (Continued)

Each participant decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from the Mercer County Educational Service Center. Effective January 1, 2019 the Trust became a consortium within a consortium via joining the Southwestern Ohio EPC Benefit Plan.

NOTE 12 – CONTINGENCIES AND OTHER COMMITMENTS

A. Grants

The Service Center received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2020, if applicable, cannot be determined at this time.

B. Litigation

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

C. Service Center Funding

Service Center Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Traditional Service Centers must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the Service Centers, which can extend past the fiscal year end. The final adjustment was not material and is not reflected in the accompanying financial statements.

NOTE 13 - INTERFUND ACTIVITY

During fiscal year 2020, the Service Center had the following advance activity:

	<u>Advances In</u>	<u>Advances Out</u>
Major Government Funds:		
General Fund	\$ 30,179	\$ 31,239
IDEA Part B	<u>31,239</u>	<u>30,179</u>
Total Advances	<u>\$ 61,418</u>	<u>\$ 61,418</u>

Advances were made during fiscal year 2020 from the general fund to cover expenditures made by separate funds awaiting reimbursement by granting authorities. Advances made by the IDEA Part B fund to the general fund were repayment of outstanding loans from prior year.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 14 - CONTRACTUAL COMMITMENTS

As of June 30, 2020, the Mercer County Educational Service Center had no material contractual commitments.

NOTE 15 - COVID-19

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

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	(1)(2) Total Federal Expenditures
U.S. DEPARTMENT OF JUSTICE		
<i>Passed Through Ohio Department of Youth Services</i>		
Juvenile Justice and Delinquency Prevention	16.540	<u>\$6,471</u>
Total U.S. Department of Justice		<u>6,471</u>
U.S. DEPARTMENT OF EDUCATION		
<i>Passed Through Ohio Department of Education</i>		
Special Education Cluster (IDEA):		
Special Education Grants to States	84.027	778,241
Special Education Preschool Grants	84.173	<u>46,946</u>
Total Special Education Cluster (IDEA)		<u>825,187</u>
English Language Acquisition State Grants	84.365	<u>29,229</u>
Total U.S. Department of Education		<u>854,416</u>
Total Expenditures of Federal Awards		<u><u>\$860,887</u></u>

(1) There were no pass through entity identifying numbers.

(2) There were no amounts passed through to subrecipients.

The accompanying notes are an integral part of this schedule.

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**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Mercer County Educational Service Center (the Educational Service Center) under programs of the federal government for the fiscal year ended June 30, 2020. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Educational Service Center, it is not intended to and does not present the financial position or changes in net position of the Educational Service Center.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE C – INDIRECT COST RATE

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

NOTE D – FEDERAL AWARDS ADMINISTERED FOR OTHER GOVERNMENTS

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

School District	Award Amount IDEA Part B	Award Amount IDEA Early Childhood
Coldwater Exempted Village School District	\$0	\$13,574
Fort Recovery Local School District	\$181,795	\$8,261
Marion Local School District	\$153,873	\$7,873
Parkway Local School District	\$213,285	\$8,653
St. Henry Consolidated Local School District	\$177,577	\$8,585
Total	\$726,530	\$46,946

NOTE E – ADMINISTRATIVE AGENT

The Educational Service Center is the Administrative Fiscal Agent for the Mercer County ESC Title III Consortia. In this capacity, the Educational Service Center operated this as a reimbursing grant for the seventeen participating school districts. This money is utilized by the educating school district to supplement learning for English language learners (CFDA #84.365). During fiscal year 2020, the Educational Service Center expended \$29,229, of which \$856 was the administrative fee kept by the Educational Service Center.

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OHIO AUDITOR OF STATE KEITH FABER



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

Mercer County Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Mercer County Educational Service Center, Mercer County, (the Educational Service Center) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated January 5, 2021, wherein we noted the Educational Service Center uses a special purpose framework other than generally accepted accounting principles. We also noted the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board Statement 84, *Fiduciary Funds*, and restated its fiscal year 2020 beginning fund balances and net positions. We also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2020-002 to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2020-001.

Educational Service Center's Responses to Findings

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

January 5, 2021

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

Mercer County Educational Service Center
Mercer County
441 East Market Street
Celina, Ohio 45822

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited Mercer County Educational Service Center's (the Educational Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Educational Service Center's major federal program for the fiscal year ended June 30, 2020. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Educational Service Center's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, Mercer County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State
Columbus, Ohio

January 5, 2021

**MERCER COUNTY EDUCATIONAL SERVICE CENTER
MERCER COUNTY**

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

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2020-001

Noncompliance

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

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

**FINDING NUMBER 2020-001
(Continued)**

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

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

Officials' Response:

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

FINDING NUMBER 2020-002

Material Weakness – Financial Statement Misstatements

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The Educational Service Center (ESC) prepared its annual financial statements in accordance with an Other Comprehensive Basis of Accounting (OCBOA). The ESC's fiscal year 2020 cash basis financial statements contained the following error that was material and required adjustment or reclassification to the financial statements:

- The Franklin Walter Scholarship Fund was improperly classified and reported as a Private Purpose Trust Fund at June 30, 2020. Therefore, private purpose trust fund cash assets, ending net position, beginning net position, contributions and donations additions, and scholarships awarded deductions were overstated by \$5,869, \$5,869, \$4,989, \$2,470, and \$1,590 respectively. As a result, non-major governmental funds cash assets, ending restricted for scholarships fund balance, beginning fund balance, contributions and donations receipts, and operation of non-instructional services disbursements were understated by \$5,869, \$5,869, \$4,989, \$2,470, and \$1,590 respectively. This error resulted in the following understatements for governmental activities as well: cash assets, ending restricted for other purposes net position, beginning net position, operating grants and contributions operation of non-instructional services program receipts, and operation of non-instructional services disbursements by \$5,869, \$5,869, \$4,989, \$2,470, and \$1,590 respectively.

**FINDING NUMBER 2020-002
(Continued)**

Failure to review the ESC's annual financial report could result in materially misstated financial statements and misleading financial information. The ESC should establish and implement procedures to review its annual financial statements to determine that they are presented in accordance with applicable accounting guidelines and principles.

Officials' Response:

The ESC will continue to review their financials statement to the best of their ability with regards to ensuring the statements are properly reported. The organization will also continue professional development to find ways to improve upon their internal controls and review processes. With regards to the Franklin B. Walter fund, the ESC will look to transfer these funds to the Mercer County Civic Foundation whom is better suited to handle this scholarship fund.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

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Mercer County Educational Service Center

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Shelly Vaughn
Superintendent

Kurt Wendel
Treasurer

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 2 CFR 200.511(b) JUNE 30, 2020

Finding Number	Finding Summary	Status	Additional Information
2019-001	Ohio Rev. Code Section 117.38 & Ohio Admin. Code Section 117-2-03(B) – Failure to prepare financial statements in accordance with GAAP	Not Corrected	The ESC does not file GAAP statements due to the extensive cost of preparing the statements as well as the additional cost in auditing such statements. It is believed by both the treasurer and the board of education that the funds saved by using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.

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Mercer County Educational Service Center

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www.mercercountyesc.org

Shelly Vaughn
Superintendent

Kurt Wendel
Treasurer

CORRECTIVE ACTION PLAN 2 CFR § 200.511(c) JUNE 30, 2020

Finding Number:	2020-001
Planned Corrective Action:	The ESC does not plan to begin filing GAAP statements due to the extensive cost of preparing the statements as well as the additional cost in auditing such statements. It is believed by the board of education that the funds saved by using the OCBOA method of financial reporting better serves the students of the county by allocating the savings to the students.
Anticipated Completion Date:	N/A
Responsible Contact Person:	Treasurer, Kurt Wendel
Finding Number:	2020-002
Planned Corrective Action:	The ESC will continue to review their financials statement to the best of their ability with regards to ensuring the statements are properly reported. The organization will also continue professional development to find ways to improve upon their internal controls and review processes. With regards to the Franklin B. Walter fund, the ESC will look to transfer these funds to the Mercer County Civic Foundation whom is better suited to handle this scholarship fund.
Anticipated Completion Date:	3/31/2021
Responsible Contact Person:	Treasurer, Kurt Wendel

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OHIO AUDITOR OF STATE KEITH FABER



MERCER COUNTY EDUCATIONAL SERVICE CENTER

MERCER COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 2/9/2021

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

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