

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

SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2023**

Zupka & Associates
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER



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Governing Board
Educational Service Center of the Western Reserve
8221 Auburn Road
Concord Township, Ohio 44077

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of the Western Reserve, Lake County, prepared by Zupka & Associates, for the audit period July 1, 2022 through June 30, 2023. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

March 18, 2024

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**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-3
Management Discussion and Analysis	5-10
Basic Financial Statements:	
Statement of Net Position	11
Statement of Activities	12
Balance Sheet - Governmental Funds	13
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	14
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Fund	17
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Fund	18
Statement of Cash Flows – Proprietary Fund	19
Statement of Fiduciary Net Position – Fiduciary Fund	20
Statement of Changes in Fiduciary Net Position – Fiduciary Fund	21
Notes to the Basic Financial Statements	22-56
Required Supplementary Information:	
Schedule of the Center's Proportionate Share of the Net Pension Liability - School Employees Retirement System of Ohio - Last Five Fiscal Years	58
Schedule of the Center's Contributions for Net Pension Liability – School Employees Retirement System of Ohio – Last Five Fiscal Years	59
Schedule of the Center's Proportionate Share of the Net Pension Liability – State Teachers Retirement System of Ohio – Last Five Fiscal Years	60
Schedule of the Center's Contribution for Net Pension Liability – State Teachers Retirement System of Ohio – Last Five Fiscal Years	61
Schedule of the Center's Proportionate Share of the Net OPEB Liability – School Employees Retirement System of Ohio – Last Five Fiscal Years	62
Schedule of the Center's Contributions for Net OPEB Liability – School Employees Retirement System of Ohio – Last Five Fiscal Years	63
Schedule of the Center's Proportionate Share of the Net OPEB (Asset)/Liability – State Teachers Retirement System of Ohio – Last Five Fiscal Years	64
Schedule of the Center's Contributions for Net OPEB (Asset)/Liability – State Teachers Retirement System of Ohio – Last Five Fiscal Years	65
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) – Lake County School Financing District Fund	66
Notes to the Required Supplementary Information	67-74
Schedule of Expenditures of Federal Awards	75
Notes to the Schedule of Expenditures of Federal Awards	76
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	77-78
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance	79-81
Schedule of Findings and Questioned Costs	82
Schedule of Prior Audit Findings and Recommendations	83

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INDEPENDENT AUDITOR'S REPORT

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

To the Members of the Governing Board:

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve as of June 30, 2023, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information


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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2024, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Zupka & Associates
Certified Public Accountants

January 22, 2024

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Educational Service Center of the Western Reserve, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2023
(Unaudited)

The discussion and analysis of the Educational Service Center of the Western Reserve (the “Center”) financial performance provides an overall review of the Center’s financial activities for the fiscal year ended June 30, 2023. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center’s performance.

Financial Highlights

Key financial highlights for fiscal year 2023 are as follows:

- General revenues accounted for \$7,055,458 in revenue or 27% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$19,383,694 or 73% of total revenues of \$26,439,152.
- The Center had \$22,851,997 in expenses related to governmental activities; \$19,383,694 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$7,055,458 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, “How did we do financially during 2023?” The Government-wide Financial Statements answers this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

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

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2023
(Unaudited)

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

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

Fund Financial Statements

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

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

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

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

The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the District's net position for 2023 compared to 2022:

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2023
(Unaudited)

Table 1
Net Position

	<u>Governmental Activities</u>	
	<u>2023</u>	<u>2022</u>
Assets:		
Current and Other Assets	\$10,467,983	\$10,583,710
Net OPEB Asset	1,596,500	1,295,763
Capital Assets, Net	<u>800,579</u>	<u>843,725</u>
Total Assets	<u>12,865,062</u>	<u>12,723,198</u>
Deferred Outflows of Resources:		
Pension	4,645,503	4,240,711
OPEB	<u>579,151</u>	<u>545,209</u>
Total Deferred Outflows of Resources	<u>5,224,654</u>	<u>4,785,920</u>
Liabilities:		
Other Liabilities	1,692,491	2,410,347
Long-Term Liabilities	<u>22,875,444</u>	<u>15,421,240</u>
Total Liabilities	<u>24,567,935</u>	<u>17,831,587</u>
Deferred Inflows of Resources:		
Property Taxes	4,806,537	4,699,978
Leases	515,937	569,811
Pension	3,882,517	13,677,686
OPEB	<u>3,889,043</u>	<u>3,889,464</u>
Total Deferred Inflows of Resources	<u>13,094,034</u>	<u>22,836,939</u>
Net Position:		
Net Investment in Capital Assets	89,284	86,123
Restricted	2,495,740	1,207,098
Unrestricted	<u>(22,157,277)</u>	<u>(24,452,629)</u>
Total Net Position	<u>(\$19,572,253)</u>	<u>(\$23,159,408)</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2023, the Center's net position was (\$19,572,253).

A portion of the Center's net position, \$2,495,740 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Table 2 shows the changes in net position for fiscal years 2023 and 2022.

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2023
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities	
	2023	2022
Revenues:		
Program Revenues		
Charges for Services and Sales	\$12,865,571	\$13,802,702
Operating Grants and Contributions	6,518,123	5,796,796
General Revenues:		
Property Taxes	5,396,996	5,416,360
Grants and Entitlements	1,058,174	516,931
Other	600,288	662,047
Total Revenues	<u>26,439,152</u>	<u>26,194,836</u>
Expenses:		
Instruction	7,587,044	6,927,191
Support Services:		
Pupil and Instructional Staff	5,392,474	4,854,774
School Administrative, General		
Administration, Fiscal and Business	8,588,913	8,041,330
Operations and Maintenance	486,281	404,550
Pupil Transportation	249,592	196,272
Central	385,251	448,875
Operation of Non-Instructional Services	121,880	184,986
Extracurricular Activities	6,492	9,722
Interest and Fiscal Charges	34,070	26,435
Total Program Expenses	<u>22,851,997</u>	<u>21,094,135</u>
Change in Net Position	3,587,155	5,100,701
Net Position - Beginning of Period	<u>(23,159,408)</u>	<u>(28,260,109)</u>
Net Position - End of Period	<u>(\$19,572,253)</u>	<u>(\$23,159,408)</u>

Governmental Activities

The Center revenues are mainly from charges for services and sales, and property taxes levied for special revenue purposes comprising 69% of the Center's revenues for governmental activities.

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

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

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

Educational Service Center of the Western Reserve, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2023
(Unaudited)

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2023	2022	2023	2022
Instruction	\$7,587,044	\$6,927,191	\$8,119,166	\$8,970,462
Support Services:				
Pupil and Instructional Staff	5,392,474	4,854,774	(3,363,104)	(2,866,579)
School Administrative, General				
Administration, Fiscal and Business	8,588,913	8,041,330	(7,103,900)	(6,589,498)
Operations and Maintenance	486,281	404,550	(438,920)	(345,830)
Pupil Transportation	249,592	196,272	(220,686)	(172,767)
Central	385,251	448,875	(321,531)	(305,857)
Operation of Non-Instructional Services	121,880	184,986	(108,754)	(161,849)
Extracurricular Activities	6,492	9,722	3,496	3,716
Interest and Fiscal Charges	34,070	26,435	(34,070)	(26,435)
Total Expenses	<u>\$22,851,997</u>	<u>\$21,094,135</u>	<u>(\$3,468,303)</u>	<u>(\$1,494,637)</u>

The Center’s Funds

The Center has three major governmental funds: the General Fund, the Lake County School Financing District Fund, and Other Grants Fund.

General Fund: Fund balance at June 30, 2023 was \$2,494,404. The net change in fund balance was \$953,061.

Lake County School Financing District Fund: Fund balance at June 30, 2023 was \$299,111. The net change in fund balance was (\$36,707).

Other Grants Fund: Fund balance at June 30, 2023 was \$263,461. The net change in fund balance was (\$289,329).

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2023 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations except for the Lake County School Financing District fund, which is required to be presented since the fund collects property tax revenue.

Capital Assets and Debt Administration

Capital Assets

The Center had equipment as capital assets of \$800,579 as of June 30, 2023. See Note 6 to the Basic Financial Statements for further details on the Center’s capital assets.

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2023
(Unaudited)

Debt

At June 30, 2023, the Center had a notes payable of \$394,411 with a due in one year of \$21,573 and a lease liability of \$711,295 with a due in one year of \$47,496. See Note 7 to the Basic Financial Statements for further details on the Center's debt.

Contacting the Center's Financial Management

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

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Educational Service Center of the Western Reserve, Ohio
Statement of Net Position
June 30, 2023

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$3,930,265
Restricted Cash and Investments	34,453
Receivables (Net):	
Taxes	5,366,586
Accounts	266,453
Intergovernmental	352,444
Leases	516,467
Prepays	1,315
Net OPEB Asset	1,596,500
Depreciable Capital Assets, Net	800,579
Total Assets	<u>12,865,062</u>
Deferred Outflows of Resources:	
Pension	4,645,503
OPEB	579,151
Total Deferred Outflows of Resources	<u>5,224,654</u>
Liabilities:	
Accounts Payable	31,147
Accrued Wages and Benefits	1,563,283
Unearned Revenue	98,061
Long-Term Liabilities:	
Due Within One Year	155,677
Due In More Than One Year	
Net Pension Liability	19,844,373
Net OPEB Liability	1,609,621
Other Amounts	1,265,773
Total Liabilities	<u>24,567,935</u>
Deferred Inflows of Resources:	
Property Taxes	4,806,537
Leases	515,937
Pension	3,882,517
OPEB	3,889,043
Total Deferred Inflows of Resources	<u>13,094,034</u>
Net Position:	
Net Investment in Capital Assets	89,284
Restricted for:	
State Grants	62,965
Lake County School Financing District	560,049
Net OPEB Asset	1,596,500
Other Purposes	276,226
Unrestricted	<u>(22,157,277)</u>
Total Net Position	<u>(\$19,572,253)</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2023

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$4,074,300	\$1,201,014	\$3,354,619	\$481,333
Special	3,189,953	9,539,150	311,865	6,661,062
Vocational	286,999	1,294,915	0	1,007,916
Adult/Continuing	35,792	0	0	(35,792)
Other	0	4,647	0	4,647
Support Services:				
Pupil	3,443,342	362,786	285,100	(2,795,456)
Instructional Staff	1,949,132	67,998	1,313,486	(567,648)
General Administration	6,027,072	6,213	533,545	(5,487,314)
School Administration	2,014,546	175,585	625,155	(1,213,806)
Fiscal	471,672	43,162	94,353	(334,157)
Business	75,623	7,000	0	(68,623)
Operations and Maintenance	486,281	47,361	0	(438,920)
Pupil Transportation	249,592	28,906	0	(220,686)
Central	385,251	63,720	0	(321,531)
Operation of Non-Instructional Services	121,880	13,126	0	(108,754)
Extracurricular Activities	6,492	9,988	0	3,496
Interest and Fiscal Charges	34,070	0	0	(34,070)
Totals	\$22,851,997	\$12,865,571	\$6,518,123	(3,468,303)

General Revenues:

Property Taxes Levied for:	
Special Revenue Purposes	5,396,996
Grants and Entitlements, Not Restricted	1,058,174
Investment Earnings	52,477
Other Revenues	547,811
	<u>7,055,458</u>

Total General Revenues

7,055,458

Change in Net Position

3,587,155

Net Position - Beginning of Year

(23,159,408)

Net Position - End of Year

(\$19,572,253)

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Balance Sheet
Governmental Funds
June 30, 2023

	General	Lake County School Financing District	Other Grants Funds	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Investments	\$3,190,410	\$0	\$263,461	\$342,883	\$3,796,754
Restricted Cash and Investments	34,453	0	0	0	34,453
Receivables (Net):					
Taxes	0	5,366,586	0	0	5,366,586
Accounts	266,453	0	0	0	266,453
Intergovernmental	0	0	0	352,444	352,444
Leases	516,467	0	0	0	516,467
Interfund	280,838	0	0	0	280,838
Prepays	1,074	0	0	241	1,315
Total Assets	\$4,289,695	\$5,366,586	263,461	\$695,568	\$10,615,310
Liabilities:					
Accounts Payable	\$23,713	\$0	0	\$7,434	\$31,147
Accrued Wages and Benefits	1,255,641	0	0	307,642	1,563,283
Interfund Payable	0	0	0	280,838	280,838
Unearned Revenue	0	0	0	98,061	98,061
Total Liabilities	1,279,354	0	0	693,975	1,973,329
Deferred Inflows of Resources:					
Property Taxes	0	5,067,475	0	0	5,067,475
Grants and Other Taxes	0	0	0	40,144	40,144
Leases	515,937	0	0	0	515,937
Total Deferred Inflows of Resources	515,937	5,067,475	0	40,144	5,623,556
Fund Balances:					
Nonspendable	36,056	0	0	241	36,297
Restricted	0	299,111	263,461	71,956	634,528
Assigned	194,524	0	0	0	194,524
Unassigned	2,263,824	0	0	(110,748)	2,153,076
Total Fund Balances	2,494,404	299,111	263,461	(38,551)	3,018,425
Total Liabilities, Deferred Inflows and Fund Balances	\$4,289,695	\$5,366,586	\$263,461	\$695,568	\$10,615,310

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2023

Total Governmental Fund Balance		\$3,018,425
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		800,579
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	260,938	
Intergovernmental	<u>40,144</u>	
		301,082
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position		133,511
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(315,744)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	4,645,503	
Deferred inflows of resources related to pensions	(3,882,517)	
Deferred outflows of resources related to OPEB	579,151	
Deferred inflows of resources related to OPEB	<u>(3,889,043)</u>	
		(2,546,906)
Long-term liabilities and net OPEB assets are not available to pay for current period expenditures and are not due and payable in the current period and, therefore, are not reported in the funds.		
Net OPEB Asset	1,596,500	
Net Pension Liability	(19,844,373)	
Net OPEB Liability	(1,609,621)	
Other Amounts	<u>(1,105,706)</u>	
		<u>(20,963,200)</u>
Net Position of Governmental Activities		<u><u>(\$19,572,253)</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2023

	General	Lake County School Financing District	Other Grants Funds	Other Governmental Funds	Total Governmental Funds
Revenues:					
Property and Other Taxes	\$0	\$5,389,771	\$0	\$0	\$5,389,771
Tuition and Fees	1,506,285	0	0	0	1,506,285
Investment Earnings	52,477	0	0	0	52,477
Intergovernmental	1,049,637	533,545	2,334,955	3,665,761	7,583,898
Extracurricular Activities	9,487	0	0	0	9,487
Contract Services	11,332,683	0	0	0	11,332,683
Other Revenues	499,562	0	0	73,901	573,463
Total Revenues	14,450,131	5,923,316	2,334,955	3,739,662	26,448,064
Expenditures:					
Current:					
Instruction:					
Regular	865,764	0	2,369,969	1,250,412	4,486,145
Special	3,433,026	0	78,987	241,434	3,753,447
Vocational	319,582	0	0	0	319,582
Adult/Continuing	45,698	0	0	0	45,698
Support Services:					
Pupil	3,825,188	0	175,328	127,155	4,127,671
Instructional Staff	803,619	0	0	1,468,942	2,272,561
General Administration	69,930	5,960,023	0	0	6,029,953
School Administration	1,892,407	0	0	604,681	2,497,088
Fiscal	477,040	0	0	92,752	569,792
Business	84,753	0	0	0	84,753
Operations and Maintenance	453,403	0	0	0	453,403
Pupil Transportation	326,135	0	0	0	326,135
Central	641,751	0	0	0	641,751
Operation of Non-Instructional Services	148,413	0	0	0	148,413
Extracurricular Activities	6,492	0	0	0	6,492
Capital Outlay	205	0	0	4,439	4,644
Debt Service:					
Principal Retirement	67,094	0	0	0	67,094
Interest and Fiscal Charges	34,070	0	0	0	34,070
Total Expenditures	13,494,570	5,960,023	2,624,284	3,789,815	25,868,692
Excess of Revenues Over (Under) Expenditures	955,561	(36,707)	(289,329)	(50,153)	579,372
Other Financing Sources (Uses):					
Transfers In	0	0	0	2,500	2,500
Transfers (Out)	(2,500)	0	0	0	(2,500)
Total Other Financing Sources (Uses)	(2,500)	0	0	2,500	0
Net Change in Fund Balance	953,061	(36,707)	(289,329)	(47,653)	579,372
Fund Balance - Beginning of Year	1,541,343	335,818	552,790	9,102	2,439,053
Fund Balance - End of Year	\$2,494,404	\$299,111	\$263,461	(\$38,551)	\$3,018,425

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2023

Net Change in Fund Balance - Total Governmental Funds \$579,372

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

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

Capital assets used in governmental activities	43,041	
Depreciation Expense	<u>(86,187)</u>	(43,146)

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

Pension Contributions	1,802,503	
Pension Expense	388,471	
OPEB Contributions	65,767	
OPEB Expense	<u>740,176</u>	2,996,917

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

Delinquent Property Taxes	7,225	
Intergovernmental	<u>(16,137)</u>	(8,912)

Repayment of notes payable and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 67,094

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

Compensated Absences		16,846
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The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

Change in Net Position - Internal Service Funds		<u>(21,016)</u>
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Change in Net Position of Governmental Activities		<u>\$3,587,155</u>
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See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2023

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$133,511</u>
Total Current Assets	<u>133,511</u>
Net Position:	
Unrestricted	<u>133,511</u>
Total Net Position	<u>\$133,511</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2023

	Governmental Activities
	Internal Service Fund
Operating Revenues:	
Charges for Services	\$2,670,152
Other Revenues	19,998
Total Operating Revenues	<u>2,690,150</u>
Operating Expenses:	
Personal Services	2,704,823
Materials and Supplies	5,143
Other Expenses	1,200
Total Operating Expenses	<u>2,711,166</u>
Change in Operating Income	<u>(21,016)</u>
Net Position - Beginning of Year	<u>154,527</u>
Net Position - End of Year	<u>\$133,511</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2023

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$2,690,150
Cash Payments to Employees	(2,704,823)
Cash Payments to Suppliers	(5,143)
Other Cash Payments	(1,200)
Net Cash Provided (Used) by Operating Activities	<u>(21,016)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(21,016)
Cash and Cash Equivalents - Beginning of Period	<u>154,527</u>
Cash and Cash Equivalents - End of Period	<u><u>\$133,511</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	<u>(\$21,016)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>(\$21,016)</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2023

	<u>Custodial Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,012,263
Receivables (Net):	
Accounts	169,713
Intergovernmental	<u>9,544</u>
Total Assets	<u>2,191,520</u>
Liabilities:	
Accounts Payable	15,931
Intergovernmental Payable	201,011
Unearned Revenue	<u>99,635</u>
Total Liabilities	<u>316,577</u>
Net Position:	
Restricted for Individuals, Organizations, and Other Governments	<u>1,874,943</u>
Total Net Position	<u>\$1,874,943</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2023

	Custodial Funds
Additions:	
Collections for iSTEM Geauga Early College High School	\$1,532,820
Collections for Lake Geauga Computer Association	<u>3,250,022</u>
Total Additions	<u>4,782,842</u>
Deductions:	
Distributions to iSTEM Geauga Early College High School	1,655,859
Distributions to Lake Geauga Computer Association	<u>3,348,713</u>
Total Deductions	<u>5,004,572</u>
Change in Net Position	(221,730)
Net Position - Beginning of Year	<u>2,096,673</u>
Net Position - End of Year	<u><u>\$1,874,943</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 1 - Description of the Center and Reporting Entity

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

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

Financial Reporting Entity

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

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

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

Jointly Governed Organizations:

Lake Geauga Computer Association
Ohio Schools Council Association

Claims Servicing Pool:

Lake County Schools Council of Governments' Health Care Benefits Program

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation GRRP

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

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 2 - Summary of Significant Accounting Policies

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

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year ended June 30, 2023. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Center classifies each fund as either governmental, proprietary or fiduciary.

Governmental Funds

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

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

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

Other Grants Fund - A fund used to account for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes.

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

Proprietary Fund

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and custodial funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. The Center's only fiduciary funds are custodial. The Center is the fiscal agent for the Lake-Geauga Computer Association and the iSTEM Geauga Early College High School, which are accounted for in custodial funds.

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows/Inflows of Resources

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

statement of net position. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 9 and 10.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources may include property taxes, leases, OPEB, grants and other taxes, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of six month ended June, 30 2023, but which were levied to finance year 2024 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. For more pension and OPEB related information, see Notes 9 and 10.

Expenses/Expenditures

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

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

Equity in Pooled Cash and Investments

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

As of June 30, 2023, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue as of June 30, 2023, amounted to \$52,477 in the General fund.

Capital Assets

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

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

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

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

Pension/Other Postemployment Benefits (OPEB)

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

Compensated Absences

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

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

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

are reported in governmental funds and estimated on the Center's past experience of making termination payments.

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

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

Employer Contributions to Cost-Sharing Pension Plans

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$2,495,740 in restricted net position, none were restricted by enabling legislation.

Fund Balance

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

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

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

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

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

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

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

Interfund Activity

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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

Operating Revenues and Expenses

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

Budgetary Process

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

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

Estimates

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

Restricted Assets

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

Note 3 - Equity in Pooled Cash and Investments

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

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

Inactive Monies – Those monies not required for use within the current five year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies held by the Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met.
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. Except as noted above, an investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2023, \$1,270,120 of the Center’s bank balance of \$1,536,880 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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

Investments

As of June 30, 2023, the Center had the following investments:

	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
STAR Ohio	\$4,495,352	N/A	0.11

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the Center’s recurring fair value measurements as of June 30, 2023. STAR Ohio is reported at its share price (net asset value per share).

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

Note 4 - Lake County School Financing District

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

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

Note 5 – Receivables

Receivables at June 30, 2023, consisted of taxes, accounts, leases, intergovernmental, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2023, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, Being Depreciated				
Equipment	\$559,930	\$43,041	\$0	\$602,971
Totals at Historical Cost	559,930	43,041	0	602,971
Less Accumulated Depreciation:				
Equipment	466,420	31,955	0	498,375
Total Accumulated Depreciation	466,420	31,955	0	498,375
Governmental Activities Capital Assets, Net	<u>\$93,510</u>	<u>\$11,086</u>	<u>\$0</u>	<u>\$104,596</u>
Leased Assets:				
Building	\$804,447	\$0	\$0	\$804,447
Total Leased Asset, being Amortized	804,447	0	0	804,447
Less: Accumulated Amortization	54,232	54,232	0	108,464
Total Leased Asset, net	750,215	(54,232)	0	695,983
Total Capital Assets, net	<u>\$843,725</u>	<u>(\$43,146)</u>	<u>\$0</u>	<u>\$800,579</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$901
Special	885
Other Instruction	394
Support Services:	
Pupil	1,666
Instructional Staff	1,985
School Administration	6,348
Business	283
Operations and Maintenance	54,232
Pupil Transportation	17,435
Central	2,058
Total Depreciation Expense	<u>\$86,187</u>

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Note 7 - Long-Term Liabilities

Long-term liabilities activity for the six months ended June 30, 2023:

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Notes Payable	\$415,198	\$0	\$20,787	\$394,411	\$21,573
Lease Liability	757,602	0	46,307	711,295	47,496
Compensated Absences	332,590	94,692	111,538	315,744	86,608
Net Pension Liability	11,835,386	8,008,987	0	19,844,373	0
Net OPEB Liability	2,080,464	0	470,843	1,609,621	0
Total Long-Term Obligations	<u>\$15,421,240</u>	<u>\$8,103,679</u>	<u>\$649,475</u>	<u>\$22,875,444</u>	<u>\$155,677</u>

Compensated Absences will be paid from the fund from which the employee is paid.
Notes payable and the lease liability will be paid from the General Fund.

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

Fiscal Year Ending June 30	Notes Payable	
	Principal	Interest
2024	\$21,573	\$14,590
2025	22,391	13,774
2026	23,238	12,926
2027	24,547	12,046
2028	25,912	11,109
2029-2033	148,660	40,002
2034-2037	128,090	9,786
Total	<u>\$394,411</u>	<u>\$114,233</u>

Note 8 - Lease Liability – Leased Assets

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

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

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2024	\$47,496	\$17,504	\$65,000
2025	48,715	16,285	65,000
2026	49,966	15,034	65,000
2027	51,250	13,750	65,000
2028	52,566	12,434	65,000
2029-2033	283,783	41,217	325,000
2034-2036	177,519	6,647	184,166
	<u>\$711,295</u>	<u>\$122,871</u>	<u>\$834,166</u>

Note 9 - Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability (Asset)

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 10 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

Plan Description

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, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS' fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

An individual whose benefit effective date is before April 1, 2018, is eligible for a cost of living adjustment (COLA) on the first anniversary date of the benefit. New benefit recipients must wait until the fourth anniversary of their benefit for COLA eligibility. The COLA is added each year to the base benefit amount on the anniversary date of the benefit. The COLA is indexed to the percentage increase in the CPI-W, not to exceed 2.5% and with a floor of 0.0%. A three-year COLA suspension was in effect for all benefit recipients for the years 2018, 2019, and 2020. The Retirement Board approved a 2.5% COLA for calendar year 2023.

Funding Policy

Plan members are required to contribute 10.0% of their annual covered salary and the Center is required to contribute 14.0% 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 10.0% for plan members and 14.0% 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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2023, the allocation to pension, death benefits, and Medicare B was 14.0%. For fiscal year 2023, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Center's contractually required contribution to SERS was \$580,130 for fiscal year 2023. Of this amount \$15,811 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0.0% upon a determination by its actuary that it was necessary to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Effective July 1, 2022, an ad-hoc COLA of 3.0% of the base benefit was granted to eligible benefit recipients to begin on the anniversary of their retirement benefit in fiscal year 2023 as long as they retired prior to July 1, 2018. Eligibility changes will be phased in August 1, 2023, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 34 years of service credit and any age. Further adjusting to five years of service and age 65, or 35 years of service credit and any age as of August 1, 2028.

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

The DC Plan allows members to place all their member contributions and 9.53% of the 14.0% employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47% of the 14.0% 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, 12.0% of the 14.0% member rate is deposited into the member's DC account and the remaining 2.0% 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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty and after termination of employment.

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

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

Funding Policy

Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The 2023 employer and employee contribution rate of 14.0% was equal to the statutory maximum rates. For 2023, the full employer contribution was allocated to pension.

The Center's contractually required contribution to STRS was \$1,222,373 for fiscal year 2023. Of this amount \$135,609 is reported as accrued wages and benefits.

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

The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$6,137,984	\$13,706,389	\$19,844,373
Proportion of the Net Pension Liability:			
Current Measurement Date	0.11348190%	0.06165682%	
Prior Measurement Date	<u>0.10780250%</u>	<u>0.06145666%</u>	
Change in Proportionate Share	0.00567940%	0.00020016%	
Pension Expense	(\$14,187)	(\$374,284)	(\$388,471)

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

At June 30 2023, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	248,593	175,459	\$424,052
Changes of assumptions	60,565	1,640,243	1,700,808
Net difference between projected and actual earnings on pension plan investments	0	476,952	476,952
Changes in employer proportionate share of net pension liability	211,249	29,939	241,188
Contributions subsequent to the measurement date	580,130	1,222,373	1,802,503
Total Deferred Outflows of Resources	<u>\$1,100,537</u>	<u>\$3,544,966</u>	<u>\$4,645,503</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	40,295	52,431	\$92,726
Changes of assumptions	0	1,234,631	1,234,631
Net difference between projected and actual earnings on pension plan investments	214,188	0	214,188
Changes in employer proportionate share of net pension liability	137,995	2,202,977	2,340,972
Total Deferred Inflows of Resources	<u>\$392,478</u>	<u>\$3,490,039</u>	<u>\$3,882,517</u>

\$1,802,503 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2024	(\$5,381)	(\$1,199,066)	(\$1,204,447)
2025	\$83,337	(\$732,049)	(648,712)
2026	(\$305,972)	(\$626,382)	(932,354)
2027	\$355,945	\$1,390,051	1,745,996
Total	<u>\$127,929</u>	<u>(\$1,167,446)</u>	<u>(\$1,039,517)</u>

Actuarial Assumptions - SERS

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2022 and compared with June 30, 2021, are presented below:

	June 30, 2022	June 30, 2021
Inflation	2.40%	2.40%
Future Salary Increases, including inflation	3.25% to 13.58%	3.25% to 13.58%
COLA or Ad Hoc COLA	2.00%, on or after April 1, 2018, COLAs for future retirees will be delayed for three years following commencement	2.00%, on or after April 1, 2018, COLAs for future retirees will be delayed for three years following commencement
Investment Rate of Return	7.00% net of system expenses	7.00% net of system expenses
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the PUB-2010 General Employee Amount Weight Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3% for males and set forward 3 years and adjusted 106.8% for females. Future improvement in mortality rates is reflected by applying the MP-2020 projection scale generationally.

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

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

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	-0.45%
US Equity	24.75%	5.37%
Non-US Equity Developed	13.50%	6.22%
Non-US Equity Emerging	6.75%	8.22%
Fixed Income/Global Bonds	19.00%	1.20%
Private Equity	11.00%	10.05%
Real Estate/Real Assets	16.00%	4.87%
Multi-Asset Strategy	4.00%	3.39%
Private Debt/Private Credit	3.00%	5.38%
Total	100.00%	

Discount Rate

The total pension liability for 2022 was calculated using the discount rate of 7.00%. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.00%). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.00%, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%), or one percentage point higher (8.00%) than the current rate.

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Proportionate share of the net pension liability	\$9,034,819	\$6,137,984	\$3,697,439

Actuarial Assumptions - STRS

Key methods and assumptions used in the June 30, 2022, actuarial valuation compared to those used in the June 30, 2021, actuarial valuation are presented below:

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

	June 30, 2022	June 30, 2021
Inflation	2.50%	2.50%
Projected Salary Increases	From 2.50% to 8.50% based on age	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.00% net of investments expense, including inflation	7.00% net of investments expense, including inflation
Discount Rate of Return	7.00%	7.00%
Payroll Increases	3.00%	3.00%
Cost-of-Living Adjustments (COLA)	0.00%	0.00%

For 2022, post-retirement mortality rates are based on the Pub-2010 Teachers Healthy Annuitant Mortality Table, adjusted 110.0% for males, projected forward generationally using mortality improvement scale MP-2020. Pre-retirement mortality rates are based on Pub-2010 Teachers Employee Table adjusted 95.0% for females, projected forward generationally using mortality improvement scale MP-2020. Post-retirement disabled mortality rates are based on Pub-2010 Teachers Disable Annuitant Table projected forward generationally using mortality improvement scale MP-2020.

For 2021, post-retirement mortality rates are based on RP-2014 Annuitant Mortality Table with 50.0% of rates through age 69, 70.0% of rates between ages 70 and 79, 90.0% of rates between ages 80 and 84, and 100.0% of rates, thereafter, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90.0% of rates for males and 100.0% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2022, valuation are based on the results of an actuarial experience study for the period July 1, 2015, through June 30, 2021. An actuarial experience study is done on a quinquennial basis.

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

Asset Class	Target Allocation *	Long-Term Expected Rate of Return **
Domestic Equity	26.00%	6.60%
International Equity	22.00%	6.80%
Alternatives	19.00%	7.38%
Fixed Income	22.00%	1.75%
Real Estate	10.00%	5.75%
Liquidity Reserves	1.00%	1.00%
Total	<u>100.00%</u>	

* Final target weights reflected October 1, 2022.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2022. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2022. Therefore, the long-term expected rate of return on pension plan investments of 7.00% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2022.

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

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

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Proportionate share of the net pension liability	\$20,705,364	\$13,706,389	\$7,787,423

Changes Between the Measurement Date and the Reporting Date

In May 2023, the Board approved the following:

1. Retirees who started receiving benefits on June 1, 2019, or earlier will receive a 1.0% cost-of-living adjustment (COLA) in fiscal year 2024. The increase will be added to the base benefit on the retirement date anniversary.
2. For teachers now in the classroom, the current retirement eligibility rule requiring 34 years of service for an unreduced retirement has been extended five years through July 2028. The requirement was scheduled to increase to 35 years of service on August 1, 2023.

Any effect on the net pension liability is not known at this time.

Note 10 - Defined Benefit OPEB Plans

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description

The Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. The following types of credit purchased after January 29, 1981 do not count toward health care coverage eligibility: military, federal, out-of-state, municipal, private school, exempted, and early retirement incentive credit. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Annual Comprehensive Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. 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 14.0% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2023, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2023, this amount was \$25,000. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% 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 2023, the Center's surcharge obligation was \$65,767.

The surcharge, added to the allocated portion of the 14.00% employer contribution rate is the total amount assigned to the Health Care Fund. The Center's contractually required contribution to SERS was \$65,767 for fiscal year 2023.

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.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy

Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14.0% of covered payroll. For the fiscal year ended June 30, 2023, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability (asset) was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Center's proportion of the net OPEB liability (asset) was based on the Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	1,609,621	\$0	\$1,609,621
Proportionate Share of the Net OPEB (Asset)	0	(1,596,500)	(1,596,500)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.11464450%	0.06165682%	
Prior Measurement Date	<u>0.10992730%</u>	<u>0.06145666%</u>	
Change in Proportionate Share	0.00471720%	0.00020016%	
OPEB Expense	(269,948)	(470,228)	(\$740,176)

At June 30 2023, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$13,531	\$23,145	\$36,676
Changes of assumptions	256,031	68,005	324,036
Net difference between projected and actual earnings on OPEB plan investments	8,366	27,791	36,157
Changes in employer proportionate share of net OPEB liability	116,515	0	116,515
Contributions subsequent to the measurement date	65,767	0	65,767
Total Deferred Outflows of Resources	\$460,210	\$118,941	\$579,151
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$1,029,631	\$239,765	\$1,269,396
Changes of assumptions	660,761	1,132,075	1,792,836
Changes in employer proportionate share of net OPEB liability	498,469	328,342	826,811
Total Deferred Inflows of Resources	\$2,188,861	\$1,700,182	\$3,889,043

\$65,767 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year	SERS	STRS	Total
Ending June 30:			
2024	(450,262)	(548,699)	(\$998,961)
2025	(438,524)	(487,342)	(925,866)
2026	(381,957)	(188,073)	(570,030)
2027	(240,365)	(74,283)	(314,648)
2028	(128,914)	(93,827)	(222,741)
Thereafter	(154,396)	(189,017)	(343,413)
Total	(\$1,794,418)	(\$1,581,241)	(\$3,375,659)

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2022, compared with June 30, 2021, are presented below:

	June 30, 2022	June 30, 2021
Inflation	2.40%	2.40%
Future Salary Increases, Including Inflation		
Wage Increases	3.25% to 13.58%	3.25% to 13.58%
Investment Rate of Return	7.00% net of investment expense, including inflation	7.00% net of investment expense, including inflation
Fiduciary Net Position is Projected to be Depleted	2044	2042
Municipal Bond Index Rate:		
Measurement Date	3.69%	1.92%
Prior Measurement Date	1.92%	2.45%
Single Equivalent Interest Rate (SEIR), net of plan investment expense, including price inflation:		
Measurement Date	4.08%	2.27%
Prior Measurement Date	2.27%	2.63%
Health Care Cost Trend Rate:		
Medicare	5.125% to 4.40%	5.125% to 4.40%
Pre-Medicare	6.75% to 4.40%	6.75% to 4.40%
Medical Trend Assumption	7.00% to 4.40%	7.00% to 4.40%

Mortality rates among healthy retirees were based on the PUB-2010 General Employee Amount Weighted Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3% for males and set forward 3 years and adjusted 106.8% for females. Mortality rates for contingent survivors were based on PUB-2010 General Amount Weighted Below Median Contingent Survivor mortality table projected to 2017 with ages set forward 1 year and adjusted 105.5% for males and adjusted 122.5% for females. Mortality rates for actives is based on PUB-2010 General Amount Weighted Below Median Employee mortality table.

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2016 through 2020, and was adopted by the Board in 2021.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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 long-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.00%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as used in the June 30, 2020 five-year experience study, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	-0.45%
US Equity	24.75%	5.37%
Non-US Equity Developed	13.50%	6.22%
Non-US Equity Emerging	6.75%	8.22%
Fixed Income/Global Bonds	19.00%	1.20%
Private Equity	11.00%	10.05%
Real Estate/Real Assets	16.00%	4.87%
Multi-Asset Strategy	4.00%	3.39%
Private Debt/Private Credit	3.00%	5.38%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2022 was 4.08%. The discount rate used to measure total OPEB liability prior to June 30, 2021, was 2.27%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the contribution rate of 1.50% of projected covered payroll each year, which includes a 1.50% payroll surcharge and no contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments of current System members by SERS actuaries. The Municipal Bond Index Rate is used in the determination of the SEIR for both the June 30, 2022, and the June 30, 2021 total OPEB liability. The Municipal Bond Index rate is the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion. The Municipal Bond Index Rate is 3.69% at June 30, 2022 and 1.92% at June 30, 2021.

Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

calculated using a discount rate that is 1 percentage point lower (3.08%) and higher (5.08%) than the current discount rate (4.08%). 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 3.40%) and higher (8.00% decreasing to 5.40%) than the current rate

	1% Decrease (3.08%)	Current Discount Rate (4.08%)	1% Increase (5.08%)
Proportionate share of the net OPEB liability	\$1,999,173	\$1,609,621	\$1,295,146
	1% Decrease (6.00% decreasing to 3.40%)	Current Trend Rate (7.00% decreasing to 4.40%)	1% Increase (8.00% decreasing to 5.40%)
Proportionate share of the net OPEB liability	\$1,241,306	\$1,609,621	\$2,090,699

Actuarial Assumptions - STRS

Key methods and assumptions used in the June 30, 2022, actuarial valuation and the June 30, 2021 actuarial valuation are presented below:

	June 30, 2022	June 30, 2021
Projected salary increases	Varies by service from 2.50% to 8.50%	Varies by service from 2.50% to 12.50%
Investment Rate of Return	7.00%, net of investment expenses, including inflation	7.00%, net of investment expenses, including inflation
Payroll Increases	3.00%	3.00%
Discount Rate of Return	7.00%	7.00%
Health Care Cost Trends:		
Medical		
Pre-Medicare	7.50% initial, 3.94% ultimate	5.00% initial, 4.00% ultimate
Medicare	-68.78% initial, 3.94% ultimate	-16.18% initial, 4.00% ultimate
Prescription Drug		
Pre-Medicare	9.00% initial, 3.94% ultimate	6.50% initial, 4.00% ultimate
Medicare	-5.47% initial, 3.94% ultimate	29.98% initial, 4.00% ultimate

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

For 2022, healthy retirees post-retirement mortality rates are based on the Pub-2010 Teachers Healthy Annuitant Mortality Table, adjusted 110.0% for males, projected forward generationally using mortality improvement scale MP-2020; pre-retirement mortality rates are based on Pub-2010 Teachers Employee Table adjusted 95.0% for females, projected forward generationally using mortality improvement scale MP-2020. For disabled retirees, mortality rates are based on the Pub-2010 Teachers Disabled Annuitant Table projected forward generationally using mortality improvement scale MP-2020.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

For 2021, healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50.0% of rates through age 69, 70.0% of rates between ages 70 and 79, 90.0% of rates between ages 80 and 84, and 100.0% 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 90.0% of rates for males and 100.0% of rates for females, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the June 30, 2022, valuation are based on the results of an actuarial experience study for the period July 1, 2015 through June 30, 2021. An actuarial experience study is done on a quinquennial basis.

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

Asset Class	Target Allocation *	Long-Term Expected Rate of Return **
Domestic Equity	26.00%	6.60%
International Equity	22.00%	6.80%
Alternatives	19.00%	7.38%
Fixed Income	22.00%	1.75%
Real Estate	10.00%	5.75%
Liquidity Reserves	1.00%	1.00%
Total	100.00%	

* Target allocation percentage is effective as of July 1, 2022. Target weights will be phased in over a 3-month period concluding on October 1, 2022.

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

Discount Rate

The discount rate used to measure the total OPEB liability was 7.00% as of June 30, 2022. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2022. Therefore, the long-term expected rate of return on health care plan investments of 7.00% was applied to all periods of projected health care costs to determine the total OPEB liability as of June 30, 2022.

Sensitivity of the Proportionate Share of the Net OPEB (Asset) to Changes in the Discount and Health Care Cost Trend Rate

The following table represents the net OPEB asset as of June 30, 2022, calculated using the current period discount rate assumption of 7.00%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Proportionate share of the net OPEB (asset)	(\$1,475,922)	(\$1,596,500)	(\$1,699,785)
	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$1,655,959)	(\$1,596,500)	(\$1,521,448)

Changes Between the Measurement Date and the Reporting Date

In May 2023, the Board approved the following:

1. Retirees who started receiving benefits on June 1, 2019, or earlier will receive a 1.0% cost-of-living adjustment (COLA) in fiscal year 2024. The increase will be added to the base benefit on the retirement date anniversary.
2. For teachers now in the classroom, the current retirement eligibility rule requiring 34 years of service for an unreduced retirement has been extended five years through July 2028. The requirement was scheduled to increase to 35 years of service on August 1, 2023.

Any effect on the net OPEB asset is not known at this time.

Note 11 - Contingent Liabilities

Grants

The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2023.

Note 12 - Jointly Governed Organizations

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8221 Auburn Road, Painesville, OH 44077.

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

Note 13 - Claims Servicing Pool

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

Note 14 – Insurance Purchasing Pool

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

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

Note 15 – Revenues

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

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

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

The Lake County School Financing District's source of revenue is derived from property taxes and related

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

state reimbursements. The taxes go to the Lake County School Financing District and are then allocated and sent to the applicable school districts.

Note 16 - Interfund Transactions

Interfund transactions at June 30, 2023, consisted of the following interfund receivables and interfund payables:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$280,838	\$0	\$0	\$2,500
Other Governmental Funds	0	280,838	2,500	0
Total All Funds	<u>\$280,838</u>	<u>\$280,838</u>	<u>\$2,500</u>	<u>\$2,500</u>

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

Note 17 – Accountability

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

Fund	Deficit
Other Governmental Funds:	
IDEA Special Education	\$11,049
ESSER	22,299
English Learners PD Grant	207
GEER	300
Progress Project	2,327
Safe Drug Free	74,339

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

Note 18 – Fund Balances

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

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

Fund Balances	General	Lake County School Financing District	Other Grants Funds	Other Governmental Funds	Total
Nonspendable:					
Unclaimed Monies	\$34,453	\$0	\$0	\$0	\$34,453
Lease Receivable	529	0	0	0	529
Prepays	1,074	0	0	241	1,315
Total Nonspendable	36,056	0	0	241	36,297
Restricted for:					
Drug Free Fundraiser	0	0	0	7,879	7,879
Other Grants	0	0	263,461	0	263,461
Science Center	0	0	0	59,204	59,204
Safe Drug Free	0	0	0	0	0
GEER	0	0	0	0	0
Student Managed Student Activity	0	0	0	4,873	4,873
Lake County Financing District	0	299,111	0	0	299,111
Total Restricted	0	299,111	263,461	71,956	634,528
Assigned to:					
Encumbrances	181,874	0	0	0	181,874
Public School Support	12,650	0	0	0	12,650
Total Assigned	194,524	0	0	0	194,524
Unassigned (Deficit)	2,263,824	0	0	(110,748)	2,153,076
Total Fund Balance	\$2,494,404	\$299,111	\$263,461	(\$38,551)	\$3,018,425

Note 19 – Implementation of New Accounting Principles

New Accounting Principles

For fiscal year 2023, the Center implemented Governmental Accounting Standards Board (GASB) Statement No. 91, Conduit Debt Obligations; GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements; GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs); and portions of GASB Statement No. 99, Omnibus 2022.

GASB Statement No. 91 clarifies the definition of a conduit debt obligation, establishing that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. The implementation of GASB Statement No. 91 did not have an effect on the financial statements of the Center.

GASB Statement No. 94 primary objective is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which (1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2023

or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

GASB Statement No. 94 also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The implementation of GASB Statement No. 94 did not have an effect on the financial statements of the Center.

GASB Statement No. 96 provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The implementation of GASB Statement No. 96 did not have an effect on the financial statements of the Center.

GASB Statement No. 99 addresses a variety of topics and includes clarification of provisions related to accounting and reporting of leases under GASB Statement No. 87, provides extension of the period which the London Interbank Offered Rate is considered appropriate benchmark interest rate, guidance on disclosure of nonmonetary transaction, accounting for pledges of future revenues when resources are not received by the pledging government under GASB Statement No. 48, and terminology updates related to certain provisions of GASB Statement No. 63 and No. 53. These topics under GASB Statement No. 99 provisions were implemented and did not have an effect on the financial statements of the Center.

Other topics in GASB Statement No. 99 includes classification of other derivative instruments within the scope of GASB Statement No. 53, clarification of provisions related to accounting and reporting of Public-Private and Public-Public Partnerships under GASB Statement No. 94, and clarification of provisions to accounting and reporting of subscription-based information technology arrangements under GASB Statement No. 96. These topics are effective for future fiscal years and have not been implemented by of the Center.

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REQUIRED SUPPLEMENTARY INFORMATION

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.11348190%	\$6,137,984	\$4,234,864	144.94%	75.82%
2022	0.10780250%	3,977,600	3,737,979	106.41%	82.86%
2021	0.11760230%	7,778,465	4,017,200	193.63%	68.55%
2020 (a)	0.13246550%	7,925,643	4,536,126	174.72%	70.85%
2019 (b)	0.13742500%	7,870,584	4,467,075	176.19%	71.36%

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

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2023	\$580,130	(\$580,130)	\$0	\$4,143,786	14.00%
2022	592,881	(592,881)	0	4,234,864	14.00%
2021	523,317	(523,317)	0	3,737,979	14.00%
2020 (a)	562,408	(562,408)	0	4,017,200	14.00%
2019 (b)	612,377	(612,377)	0	4,536,126	13.50%

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2023	0.06165682%	\$13,706,389	\$8,150,221	168.17%	78.88%
2022	0.06145666%	7,857,786	7,064,879	111.22%	87.78%
2021	0.06745142%	16,320,844	7,567,329	215.68%	75.50%
2020 (a)	0.07805754%	17,261,956	9,026,500	191.24%	77.40%
2019 (b)	0.09242855%	20,322,963	10,249,364	198.29%	77.30%

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

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2023	\$1,222,373	(\$1,222,373)	\$0	\$8,731,236	14.00%
2022	1,141,031	(1,141,031)	0	8,150,221	14.00%
2021	989,083	(989,083)	0	7,064,879	14.00%
2020 (a)	1,059,426	(1,059,426)	0	7,567,329	14.00%
2019 (b)	1,263,710	(1,263,710)	0	9,026,500	14.00%

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB Liability	Center's Proportionate Share of the Net OPEB Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2023	0.11464450%	\$1,609,621	\$4,234,864	38.01%	30.34%
2022	0.10992730%	2,080,464	3,737,979	55.66%	24.08%
2021	0.11993140%	2,606,502	4,017,200	64.88%	18.17%
2020 (a)	0.13347040%	3,356,500	4,536,126	73.99%	15.57%
2019 (b)	0.13850100%	3,842,392	4,467,075	86.02%	13.57%

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

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution (2)	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2023	\$65,767	(\$65,767)	\$0	\$4,143,786	1.59%
2022	67,751	(67,751)	0	4,234,864	1.60%
2021	64,934	(64,934)	0	3,737,979	1.74%
2020 (a)	67,094	(67,094)	0	4,017,200	1.67%
2019 (b)	92,288	(92,288)	0	4,536,126	2.03%

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

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

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

(2) Includes surcharge.

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB (Asset)/Liability	Center's Proportionate Share of the Net OPEB (Asset)/Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability
2023	0.06165682%	(\$1,596,500)	\$8,150,221	(19.59%)	230.73%
2022	0.06145666%	(1,295,763)	7,064,879	(18.34%)	174.73%
2021	0.06745142%	(1,185,458)	7,567,329	(15.67%)	182.13%
2020 (a)	0.07805754%	(1,292,820)	9,026,500	(14.32%)	174.74%
2019 (b)	0.09242855%	(1,485,232)	10,249,364	(14.49%)	176.00%

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

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2023	\$0	\$0	\$0	\$8,731,236	0.00%
2022	0	0	0	8,150,221	0.00%
2021	0	0	0	7,064,879	0.00%
2020 (a)	0	0	0	7,567,329	0.00%
2019 (b)	0	0	0	9,026,500	0.00%

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

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

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

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2023

	Lake County School Financing District Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,087,283	\$5,426,478	\$5,426,478	\$0
Intergovernmental	500,194	533,545	533,545	0
Total Revenues	<u>5,587,477</u>	<u>5,960,023</u>	<u>5,960,023</u>	<u>0</u>
Expenditures:				
Current:				
Support Services:				
General Administration	<u>5,587,477</u>	<u>5,960,023</u>	<u>5,960,023</u>	<u>0</u>
Total Expenditures	<u>5,587,477</u>	<u>5,960,023</u>	<u>5,960,023</u>	<u>0</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year/Period (includes prior year encumbrances appropriated)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - End of Year/Period	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

Note 1 – Budgetary Process

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

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

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

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

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

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

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

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

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

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

Net Change in Fund Balances

	Lake County School Financing District
GAAP Basis	(\$36,707)
Revenue Accruals	36,707
Budget Basis	<u>\$0</u>

Note 2 - Net Pension Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

2023: There were no changes in benefit terms since the prior measurement period.

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

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

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

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

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

Changes in Assumptions:

2023: The following changes of assumptions affected the total pension liability since the prior measurement date:

- (1) Cost of Living Adjustments (COLA) was increased from 2.00% to 2.50% for calendar year 2023.

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

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

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

- (1) The assumed rate of inflation was reduced from 3.25% to 3.00%,
- (2) Payroll growth assumption was reduced from 4.00% to 3.50%,
- (3) Assumed real wage growth was reduced from 0.75% to 0.50%,
- (4) Rates of withdrawal, retirement and disability were updated to reflect recent experience,
- (5) Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females,
- (6) Mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates,
- (7) Mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement, and
- (8) The discount rate was reduced from 7.75% to 7.50%.

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

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

2019-2023: There were no changes in benefit terms from the amounts reported for these fiscal years.

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

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

Changes in Assumptions:

2023: The following changes of assumptions affected the total pension liability since the prior measurement date:

- (1) Post-retirement mortality rates are based on the Pub-2010 Teachers Healthy Annuitant Mortality Table:
 - a. Adjusted 110.0% for males, projected forward generationally using mortality improvement scale MP-2020
- (2) Pre-retirement mortality rates are based on Pub-2010 Teachers Employee Table:
 - a. Adjusted 95.0% for females, projected forward generationally using mortality improvement scale MP-2020
- (3) Post-retirement disabled mortality rates are based on Pub-2010 Teachers Disable Annuitant Table:
 - a. Projected forward generationally using mortality improvement scale MP-2020
- (4) Projected salary increases changed from 2.50% to 12.50% to 2.50% to 8.50%

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

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

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

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

Note 3 - Net OPEB (Asset)/Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

2017-2023: There were no changes in benefit terms from the amounts reported for these fiscal years.

Changes in Assumptions:

2023: Amounts reported for the fiscal year incorporate changes in key methods and assumptions used in calculating the total OPEB liability as presented below:

- (1) Discount Rate:

Prior Measurement Date	2.27%
Measurement Date	4.08%
- (2) Municipal Bond Index Rate:

Prior Measurement Date	1.92%
Measurement Date	3.69%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	2.27%
Measurement Date	4.08%
- (4) Health care trend rates were updated.

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

- (1) Discount Rate:

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

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

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

Prior Measurement Date	3.50%
Measurement Date	1.75%

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

- (5) Assumed Real Wage Growth:
 - Prior Measurement Date 0.50%
 - Measurement Date 0.85%
- (6) Municipal Bond Index Rate:
 - Prior Measurement Date 2.45%
 - Measurement Date 1.92%
- (7) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
 - Prior Measurement Date 2.63%
 - Measurement Date 2.27%
- (8) Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- (9) Rate of health care participation for future retirees and spouses was updated to reflect recent.
- (10) Mortality among active members was updated to the following:
 - a. PUB-2010 General Amount Weighted Below Median Employee mortality table.
- (11) Mortality among service retired members was updated to the following:
 - a. PUB-2010 General Employee Amount Weighted Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20% for males and set forward 2 years and adjusted 81.35% for females.
- (12) Mortality among beneficiaries was updated to the following:
 - a. PUB-2010 General Amount Weighted Below Median Contingent Survivor mortality table projected to 2017 with ages set forward 1 year and adjusted 105.5% for males and adjusted 122.5% for females.
- (13) Mortality among disabled member was updated to the following:
 - a. PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3% for males and set forward 3 years and adjusted 106.8% for females.
- (14) Mortality rates are projected using a fully generational projection with Scale MP-2020.

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

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

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

- (1) Discount Rate:
 - Prior Measurement Date 3.70%
 - Measurement Date 3.22%
- (2) Municipal Bond Index Rate:
 - Prior Measurement Date 3.62%
 - Measurement Date 3.13%

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
- | | |
|------------------------|-------|
| Prior Measurement Date | 3.70% |
| Measurement Date | 3.22% |

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

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

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

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

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

- (1) The assumed rate of inflation was reduced from 3.25% to 3.00%,
- (2) Payroll growth assumption was reduced from 4.00% to 3.50%,
- (3) Assumed real wage growth was reduced from 0.75% to 0.50%,
- (4) Rates of withdrawal, retirement and disability were updated to reflect recent experience,
- (5) Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females,
- (6) Mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, and
- (7) Mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

2023: Salary increase rates were updated based on the actuarial experience study for the period July 1, 2015 through June 30, 2021 and were changed from age based to service based. Healthcare trends were updated to reflect emerging claims and recoveries experience.

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

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

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

2019: The subsidy multiplier for non-Medicare benefit recipients was increased from 1.900% to 1.944% per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020. The Board is extending the current Medicare Part B partial reimbursement program for one year. Under this program, benefit recipients currently enrolled in the STRS Ohio Health Care Program and Medicare Part B receive \$29.90 per month to reimburse a portion of the Medicare Part B premium. The reimbursement was set to be reduced to \$0 beginning January 1, 2020. This impacts about 85,000 benefit recipients.

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

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

Changes in Assumptions:

2023: The discount rate remained unchanged at 7.00% for the June 30, 2022 valuation.

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June 30, 2023

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

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

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

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

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

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Expenditures
<u>U.S. Department of Education</u>		
<i>Passed through Ohio Department of Education</i>		
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	\$ 987,527
Special Education - Grants to States - Restoration	84.027	33,726
Special Education - Grants to States - Early Literacy SSIP (IDEA)	84.027	89,980
Special Education - Grants to States - Parent Mentor Project	84.027	26,312
Special Education - Grants to States - ARP IDEA	84.027	5,000
Special Education - Preschool Grants	84.173	150,287
Special Education - Preschool Grants - Early Literacy SSIP (ELSR)	84.173	26,886
Total Special Education Cluster		<u>1,319,718</u>
 Title I - Grants to Local Educational Agencies	 84.010	 <u>10,865</u>
 English Language Acquisition State Grants	 84.365	 <u>107,236</u>
 Improving Teacher Quality State Grants	 84.367	 <u>6,199</u>
Education Stabilization Fund -		
GEER - Governors Emergency Education Relief Fund	84.425C	88,704
ESSER ESC Family Engagement Liaisons	84.425D	8,869
ARP ESSER - Extended Learning and Recovery	84.425U	1,092,608
Support Structured Literacy	84.425U	49,127
ARP ESSER - iSTEM	84.425U	163,837
Family and Community Partner Liaisons	84.425U	100,914
Ohio Personalized Learning Network (ESC Support)	84.425U	130,445
Future Forward 22-24	84.425U	81,945
Total ALN #84.425		<u>1,716,449</u>
Total Passed through Ohio Department of Education		<u>3,160,467</u>
 <i>Direct Award</i>		
Rural Education	84.358	<u>22,968</u>
Total U.S. Department of Education		<u>3,183,435</u>
<u>U.S. Department of Health and Human Services</u>		
<i>Passed through Ohio Department of Health and Human Services</i>		
Drug-Free Communities Support Program Grant	93.276	<u>478</u>
 Teenage Pregnancy Prevention Program	 93.297	 <u>165,458</u>
 Block Grants for Prevention and Treatment of Substance Abuse		
Community Prevention Grant (SAPT)	93.959	75,290
Regional Collaborative (RLC)	93.959	21,269
COVID-19 - ARPA Community Impact Grant	93.959	39,851
Total ALN #93.959		<u>136,410</u>
Total U.S. Department of Health and Human Services		<u>302,346</u>
<u>U.S. Department of the Treasury</u>		
<i>Passed through Ohio Facilities Construction Commission</i>		
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	<u>7,955</u>
Total U.S. Department of the Treasury		<u>7,955</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 3,493,736</u>

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

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Educational Service Center of the Western Reserve under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Educational Service Center of the Western Reserve, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Educational Service Center of the Western Reserve.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3: INDIRECT COST RATE

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

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

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

To the Members of the Governing Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated January 22, 2024.

Report on Internal Control Over Financial Reporting

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

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

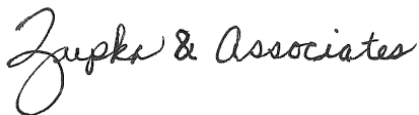
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Zupka & Associates
Certified Public Accountants

January 22, 2024

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

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

To the Members of the Governing Board:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Educational Service Center of the Western Reserve, Lake County, Ohio's (the Center) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2023. The Center's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the Educational Service Center of the Western Reserve complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

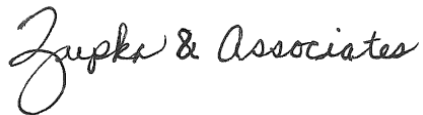
Report on Internal Control over Compliance

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

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

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

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



Zupka & Associates
Certified Public Accountants

January 22, 2024

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNIFORM GUIDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

1. SUMMARY OF AUDITOR'S RESULTS

2023(i)	Type of Financial Statement Opinion	Unmodified
2023(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2023(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
2023(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2023(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2023(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2023(v)	Type of Major Programs' Compliance Opinions	Unmodified
2023(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2023(vii)	Major Programs (list): Education Stabilization Fund - ALN #84.425C, #84.425D, and #84.425U	
2023(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others less than \$750,000
2023(ix)	Low Risk Auditee?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

The prior issued audit report, as of June 30, 2022, contained no audit findings. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

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OHIO AUDITOR OF STATE KEITH FABER



EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 3/28/2024

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