

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**BASIC FINANCIAL STATEMENTS
*(AUDITED)***

***FOR THE FISCAL YEAR ENDED
JUNE 30, 2019***



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Members of the Board
Mid-Ohio Educational Service Center
890 W 4th Street, Suite 100
Mansfield, OH 44906

We have reviewed the *Independent Auditor's Report* of the Mid-Ohio Educational Service Center, Richland County, prepared by Julian & Grube, Inc., for the audit period July 1, 2018 through June 30, 2019. 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 Mid-Ohio Educational Service Center is responsible for compliance with these laws and regulations

Keith Faber
Auditor of State
Columbus, Ohio

February 24, 2020

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

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Julian & Grube, Inc.

Serving Ohio Local Governments

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Independent Auditor's Report

Mid-Ohio Educational Service Center
Richland County
890 West Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Mid-Ohio Educational Service Center, Richland County, Ohio, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Mid-Ohio Educational Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, its major fund, and the aggregate remaining fund information of the Mid-Ohio Educational Service Center, Richland County, Ohio, as of June 30, 2019, and the respective changes in cash financial position thereof for the fiscal year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Supplementary Information

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

The budgetary comparison schedule for the General fund as listed in the table of contents provides additional analysis and is not a required part of the basic financial statements.

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

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

Other Information

We applied no procedures to Management's Discussion & Analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019, on our consideration of the Mid-Ohio Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Mid-Ohio Educational Service Center's internal control over financial reporting and compliance.



Julian & Grube, Inc.
December 20, 2019

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The management's discussion and analysis of the Mid-Ohio Educational Service Center's (the "ESC") financial performance provides an overall review of the ESC's financial activities for the fiscal year ended June 30, 2019, within the limitations of the ESC's cash basis of accounting. The intent of this discussion and analysis is to look at the ESC's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the cash basis basic financial statements to enhance their understanding of the ESC's financial performance.

Financial Highlights

Key financial highlights for 2019 are as follows:

- In total, net cash position of governmental activities increased \$113,782 which represents a 1.19% increase from 2018.
- General cash receipts accounted for \$2,885,660 or 23.71% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$9,287,104 or 76.29% of total governmental activities cash receipts of \$12,172,764.
- The ESC had \$12,058,982 in cash disbursements related to governmental activities; \$9,287,104 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$2,885,660 were adequate to provide for these programs.
- The ESC's major governmental fund is the general fund. The general fund had \$11,526,697 in cash receipts and \$11,412,806 in cash disbursements. During fiscal year 2019, the general fund's fund cash balance increased \$113,891 from \$9,550,488 to \$9,664,379.

Using these Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the ESC's cash basis of accounting.

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole ESC, presenting both an aggregate view of the ESC's cash basis 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 ESC's most significant funds with all other nonmajor funds presented in total in one column. In the case of the ESC, the general fund is by far the most significant fund and the only governmental fund reported as a major fund.

Reporting the ESC as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

While this document contains the large number of funds used by the ESC to provide programs and activities, the view of the ESC as a whole looks at cash basis financial transactions and asks the question, "How did we do financially during 2019?" The statement of net position - cash basis and statement of activities - cash basis answer this question. These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

These two statements report the ESC's net position and changes in that position on a cash basis. This change in net position is important because it tells the reader that, for the ESC as a whole, the cash basis financial position of the ESC has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the ESC's facility conditions, required educational programs and other factors.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis, the governmental activities include the ESC's programs and services, including instruction and support services.

The ESC's statement of net position - cash basis and statement of activities - cash basis can be found on pages 11-12 of this report.

Reporting the ESC's Most Significant Funds

Fund Financial Statements

The analysis of the ESC's major governmental fund begins on page 9. Fund financial reports provide detailed information about the ESC's major fund. The ESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the ESC's most significant fund. The ESC's only major governmental fund is the general fund.

Governmental Funds

Most of the ESC'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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed view of the ESC's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer cash basis financial resources that can be spent in the near future to finance educational programs. Since the ESC is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

However, differences will be apparent when comparing gross receipts and disbursements on the fund financial statements to the statement of activities - cash basis due to transfers between governmental funds being eliminated for reporting in the statement of activities - cash basis. The governmental fund statements can be found on pages 13-14 of this report.

Reporting the ESC's Fiduciary Responsibilities

The ESC acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. Only the cash held at year end is reported in a separate statement of cash basis assets and net cash assets - fiduciary fund assets on page 15. This cash is excluded from the ESC's other financial statements because the cash cannot be utilized by the ESC to finance its operations.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the cash basis basic financial statements can be found on pages 17-45 of this report.

The ESC as a Whole

Recall that the statement of net position - cash basis provides the perspective of the ESC as a whole.

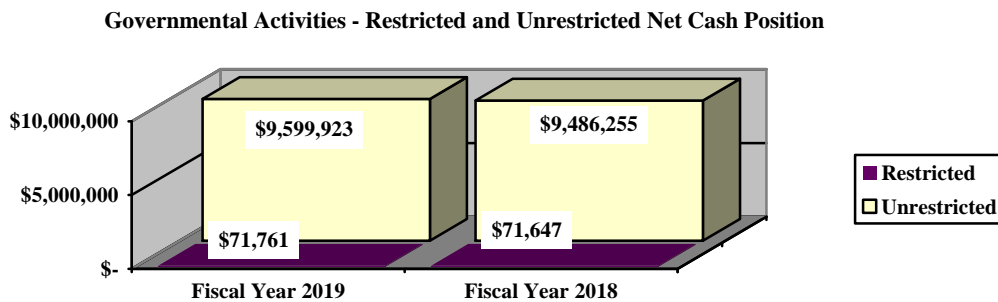
The table below provides a summary of the ESC's net cash position for 2019 and 2018.

	Net Cash Position	
	Governmental Activities 2019	Governmental Activities 2018
<u>Assets</u>		
Equity in pooled cash, cash equivalents and investments	\$ 9,671,684	\$ 9,557,902
<u>Net Cash Position</u>		
Restricted	\$ 71,761	\$ 71,647
Unrestricted	9,599,923	9,486,255
Total net cash position	\$ 9,671,684	\$ 9,557,902

Over time, net cash position can serve as a useful indicator of a government's financial position. At June 30, 2019, the ESC's total net cash position was \$9,671,684.

A portion of the ESC's net cash position, \$71,761, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash position of \$9,599,923 may be used to meet the ESC's ongoing obligations to students and creditors.

The graph below presents the ESC's governmental activities restricted and unrestricted net cash position for fiscal years 2019 and 2018.



**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

The table below shows the change in net cash position for fiscal years 2019 and 2018.

	Change in Net Cash Position	
	Governmental Activities 2019	Governmental Activities 2018
	<u>2019</u>	<u>2018</u>
<u>Cash Receipts</u>		
Program cash receipts:		
Charges for services and sales	\$ 8,270,600	\$ 9,009,448
Operating grants and contributions	1,016,504	702,438
General cash receipts:		
Unrestricted grants and entitlements	2,705,195	2,535,538
Investment earnings	180,465	106,100
Total cash receipts	<u>12,172,764</u>	<u>12,353,524</u>
<u>Cash Disbursements</u>		
Program expenses:		
Instruction:		
Regular	83,248	408,805
Special	2,798,673	3,032,538
Other	19,043	16,211
Support services:		
Pupil	4,341,285	4,213,060
Instructional staff	1,590,030	1,028,021
Board of education	54,016	57,685
Administration	1,254,110	1,568,525
Fiscal	633,429	634,237
Business	155,596	199,709
Operations and maintenance	544,733	479,288
Central	431,562	432,276
Other non-instructional services	27,039	95,355
Facilities acquisition and construction	110,372	-
Debt service:		
Principal retirement	13,614	6,618
Interest and fiscal charges	2,232	1,305
Total cash disbursements	<u>12,058,982</u>	<u>12,173,633</u>
Change in net cash assets	<u>113,782</u>	<u>179,891</u>
Net cash assets at beginning of year	<u>9,557,902</u>	<u>9,378,011</u>
Net cash assets at end of year	<u>\$ 9,671,684</u>	<u>\$ 9,557,902</u>

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

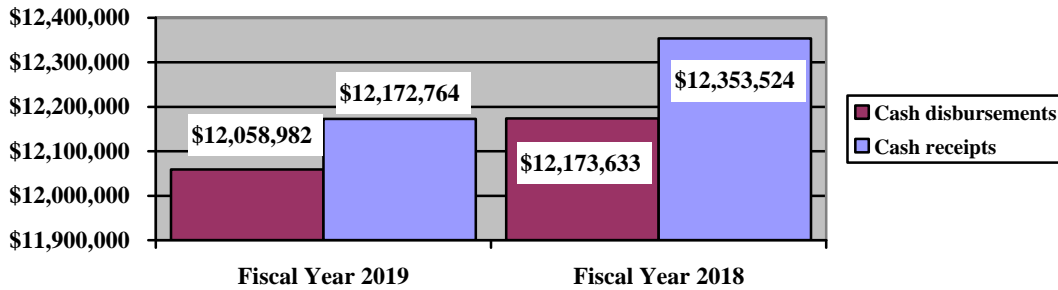
Governmental Activities

Net cash position of the ESC's governmental activities increased \$113,782. Total governmental cash disbursements of \$12,058,982 were offset by program cash receipts of \$9,287,104 and general cash receipts of \$2,885,660. Program cash receipts supported 77.01% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 67.94% of total governmental cash receipts.

The largest cash disbursement of the ESC is for support services. Support services cash disbursements totaled \$9,004,761 or 74.67% of total governmental cash disbursements for fiscal year 2019. The graph below presents the ESC's governmental activities cash receipts and cash disbursements for fiscal years 2019 and 2018.

Governmental Activities - Cash Receipts and Disbursements



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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

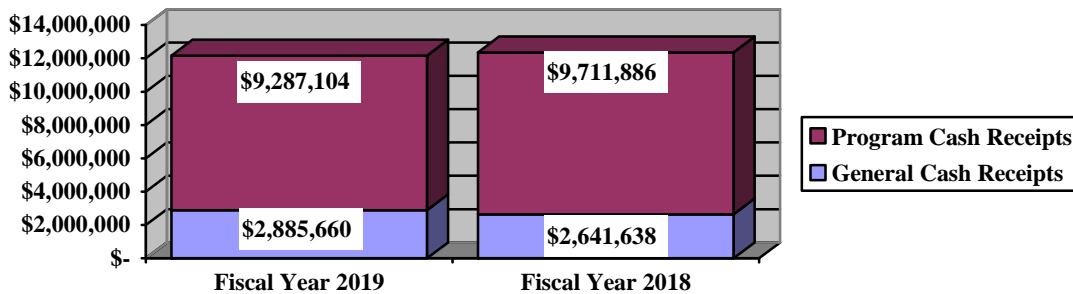
The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services <u>2019</u>	Net Cost of Services <u>2019</u>	Total Cost of Services <u>2018</u>	Net Cost of Services <u>2018</u>
Program cash disbursements				
Instruction:				
Regular	\$ 83,248	\$ 83,248	\$ 408,805	\$ 408,805
Special	2,798,673	323,124	3,032,538	131,863
Other	19,043	19,043	16,211	16,211
Support services:				
Pupil	4,341,285	739,950	4,213,060	529,791
Instructional staff	1,590,030	112,268	1,028,021	(5,603)
Board of education	54,016	(317,754)	57,685	(356,885)
Administration	1,254,110	214,964	1,568,525	197,300
Fiscal	633,429	633,429	634,237	634,237
Business	155,596	155,596	199,709	199,709
Operations and maintenance	544,733	231,607	479,288	172,565
Central	431,562	429,762	432,276	430,476
Other non-instructional services	27,039	20,423	95,355	95,355
Facilities acquisition and construction	110,372	110,372	-	-
Debt service:				
Principal retirement	13,614	13,614	6,618	6,618
Interest and fiscal charges	2,232	2,232	1,305	1,305
Total cash disbursements	<u>\$ 12,058,982</u>	<u>\$ 2,771,878</u>	<u>\$ 12,173,633</u>	<u>\$ 2,461,747</u>

The ESC primarily depends upon charges for services provided by member districts; however, dependence upon general cash receipts for governmental activities is apparent as 24.43% of support services activities are supported through grants and entitlements (including State foundation) and other general cash receipts. For all governmental activities, general cash receipt support is 22.99%.

The graph below presents the ESC's governmental activities cash receipts for fiscal years 2019 and 2018.

Governmental Activities - General and Program Cash Receipts



**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

The ESC's Funds

The ESC's governmental funds reported a combined fund cash balance of \$9,671,684, which is more than last year's total of \$9,557,902. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2019 and 2018.

	Fund Cash Balance <u>June 30, 2019</u>	Fund Cash Balance <u>June 30, 2018</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 9,664,379	\$ 9,550,488	\$ 113,891	1.19 %
Other Governmental	<u>7,305</u>	<u>7,414</u>	<u>(109)</u>	(1.47) %
Total	<u>\$ 9,671,684</u>	<u>\$ 9,557,902</u>	<u>\$ 113,782</u>	1.19 %

General Fund

The ESC's general fund cash balance increased \$113,891. The table that follows assists in illustrating the cash financial activities of the general fund.

	2019 <u>Amount</u>	2018 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Cash Receipts</u>				
Tuition	\$ 5,483,629	\$ 4,973,067	\$ 510,562	10.27 %
Contract services	2,421,667	3,655,601	(1,233,934)	(33.75) %
Earnings on investments	180,465	106,100	74,365	70.09 %
Intergovernmental	3,075,632	2,946,983	128,649	4.37 %
Rental income	313,126	306,723	6,403	2.09 %
Other	<u>52,178</u>	<u>74,057</u>	<u>(21,879)</u>	(29.54) %
Total	<u>\$ 11,526,697</u>	<u>\$ 12,062,531</u>	<u>\$ (535,834)</u>	(4.44) %
<u>Cash Disbursements</u>				
Instruction	\$ 2,669,080	\$ 3,253,145	\$ (584,065)	(17.95) %
Support services	8,597,094	8,466,824	130,270	1.54 %
Other non-instructional services	20,414	94,425	(74,011)	(78.38) %
Facilities acquisition and construction	110,372	-	110,372	100.00 %
Debt service	<u>15,846</u>	<u>7,923</u>	<u>7,923</u>	100.00 %
Total	<u>\$ 11,412,806</u>	<u>\$ 11,822,317</u>	<u>\$ (409,511)</u>	(3.46) %

Tuition receipts increased \$510,562 or 10.27% due primarily to an increase in miscellaneous payments from other districts. Intergovernmental receipts increased \$128,649 or 4.37% due mostly to an increase in unrestricted grants from State sources. Earnings on investments increased \$74,365 or 70.09% due to an increase in interest rates. Contract services receipts decreased \$1,233,934 or 33.75% due mainly to a decrease in receipts from the preschool and the Tomorrow Center. Other revenues decreased \$21,879 or 29.54% due mainly to a decrease in the E-Rate reimbursement, as well as a decrease in charges for self-insurance liability.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

Instruction expenditures decreased \$584,065 or 17.95% primarily due to a decrease in preschool special education services and Tomorrow Center teacher salaries. Other non-instructional services expenditures decreased \$74,011 or 78.38% mostly due to a decrease in food service operations expenditures. Support services expenditures increased \$130,270 or 1.54% primarily due to an increase in TAG coordinator and special education consultant salaries. Facilities acquisition and construction expenditures increased \$110,372 due to improvements and renovations made to the Learning Center during fiscal year 2019.

Capital Assets and Debt Administration

Capital Assets

The ESC does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The ESC is not permitted to issue debt. See Note 5 to the basic financial statements for additional information on the ESC's capital lease.

Current Financial Related Activities

The Mid-Ohio Educational Service Center operates on sound financial ground relying on contracts with area agencies and local, city and exempted village school districts in the counties of Richland, Morrow, and Crawford as well as State foundation revenue and grants. The future financial stability of the ESC is not without concern in light of the State's continued decrease in funding to Educational Service Centers.

The primary focus of the ESC continues to be on meeting the needs of client districts with the ultimate goal of providing the necessary resources to meet student needs. The ESC prides itself on providing quality service while at the same time being sensitive to the financial hardships facing its client districts. A sound system of budgeting and internal controls enables the ESC to operate efficiently and to meet the financial challenges of the future.

Contacting the ESC's Financial Management

The financial report is designed to provide citizens, investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money received. Questions about the report may be directed to: Mrs. Lorraine Earnest, Treasurer, Mid-Ohio Educational Service Center, 890 West Fourth Street, Suite 100, Mansfield, Ohio 44906.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2019

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$ 9,671,684
Total Assets	\$ 9,671,684
 Net Cash Position:	
Restricted for:	
Locally Funded Programs	\$ 1,615
State Funded Programs	22,680
Federally Funded Programs	44,442
Other Purposes	3,024
Unrestricted	9,599,923
Total Net Cash Position	\$ 9,671,684

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	Cash Disbursements	Program Cash Receipts		Net (Cash Disbursements) Cash Receipts and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 83,248	\$ -	\$ -	\$ (83,248)
Special	2,798,673	2,247,179	228,370	(323,124)
Other	19,043	-	-	(19,043)
Support Services:				
Pupil	4,341,285	3,596,007	5,328	(739,950)
Instructional Staff	1,590,030	1,073,809	403,953	(112,268)
Board of Education	54,016	1,333	370,437	317,754
Administration	1,254,110	1,039,146	-	(214,964)
Fiscal	633,429	-	-	(633,429)
Business	155,596	-	-	(155,596)
Operations and Maintenance	544,733	313,126	-	(231,607)
Central	431,562	-	1,800	(429,762)
Other Non-Instructional Services	27,039	-	6,616	(20,423)
Facilities Acquisition and Construction	110,372	-	-	(110,372)
Debt Service:				
Principal Retirement	13,614	-	-	(13,614)
Interest and Fiscal Charges	2,232	-	-	(2,232)
Total Governmental Activities	\$ 12,058,982	\$ 8,270,600	\$ 1,016,504	(2,771,878)
General Cash Receipts:				
Grants and Entitlements not Restricted				
to Specific Programs 2,705,195				
Investment Earnings 180,465				
Total General Cash Receipts 2,885,660				
Change in Net Cash Position 113,782				
Net Cash Position at Beginning of Year 9,557,902				
Net Cash Position at End of Year \$ 9,671,684				

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND FUND CASH BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General	Nonmajor Governmental Funds	Total Governmental Funds
Cash Assets:			
Equity in Pooled Cash and Investments	\$ 9,664,379	\$ 7,305	\$ 9,671,684
Total Cash Basis Assets	\$ 9,664,379	\$ 7,305	\$ 9,671,684
 Fund Cash Balances:			
Restricted:			
Adult Education	\$ -	\$ 9,466	\$ 9,466
Targeted Academic Assistance	-	3,319	3,319
Other Purposes	-	58,976	58,976
Committed:			
Capital Improvements	97,166	-	97,166
Technology Maintenance	24,994	-	24,994
Assigned:			
Services Provided to Districts	145,568	-	145,568
Preschool Programs	216,181	-	216,181
After School Programs	6,218,578	-	6,218,578
Special Education Programs	142,535	-	142,535
Professional Development Programs	10,894	-	10,894
Other Purposes	61,504	-	61,504
Unassigned (Deficit)	2,746,959	(64,456)	2,682,503
Total Fund Cash Balances	\$ 9,664,379	\$ 7,305	\$ 9,671,684

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN FUND CASH BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:			
From Local Sources:			
Tuition	\$ 5,483,629	\$ -	\$ 5,483,629
Contract Services	2,421,667	-	2,421,667
Earnings on Investments	180,465	-	180,465
Extracurricular	11,030	-	11,030
Contributions and Donations	1,333	7,461	8,794
Rental Income	313,126	-	313,126
Other Local Revenues	39,815	-	39,815
Intergovernmental - State	2,705,195	7,128	2,712,323
Intergovernmental - Federal	370,437	631,478	1,001,915
Total Cash Receipts	<u>11,526,697</u>	<u>646,067</u>	<u>12,172,764</u>
Cash Disbursements:			
Current:			
Instruction:			
Regular	83,123	125	83,248
Special	2,566,914	231,759	2,798,673
Other	19,043	-	19,043
Support Services:			
Pupil	4,339,896	1,389	4,341,285
Instructional Staff	1,185,552	404,478	1,590,030
Board of Education	54,016	-	54,016
Administration	1,254,110	-	1,254,110
Fiscal	633,429	-	633,429
Business	155,596	-	155,596
Operations and Maintenance	544,733	-	544,733
Central	429,762	1,800	431,562
Other Non-Instructional Services	20,414	6,625	27,039
Facilities Acquisition and Construction	110,372	-	110,372
Debt Service:			
Principal Retirement	13,614	-	13,614
Interest and Fiscal Charges	2,232	-	2,232
Total Cash Disbursements	<u>11,412,806</u>	<u>646,176</u>	<u>12,058,982</u>
Net Change in Cash Fund Balances	113,891	(109)	113,782
Fund Cash Balances			
at Beginning of Year	<u>9,550,488</u>	<u>7,414</u>	<u>9,557,902</u>
Fund Cash Balances at End of Year	<u>\$ 9,664,379</u>	<u>\$ 7,305</u>	<u>\$ 9,671,684</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

STATEMENT OF CASH BASIS ASSETS AND NET CASH ASSETS
FIDUCIARY FUND
JUNE 30, 2019

	Agency
Assets:	
Equity in Pooled Cash and Cash Investments	\$ 122,505
Total Assets	\$ 122,505
Net Cash Assets:	
Restricted for Distribution to Others	\$ 122,505
Total Net Cash Assets	\$ 122,505

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Mid-Ohio Educational Service Center (the "ESC") is a political subdivision of the State of Ohio. The ESC was formed from the consolidation of the former Crawford County, Morrow County, and Richland County Educational Service Centers on July 1, 1996. Educational Service Centers were formed as a result of Senate Bill 9 as amended by Am. Sub. H.B. 117.

The ESC maintains its central office in Richland County. The Governing Board consists of seven members elected by the voters of each county. This Governing Board acts as the authorizing body for disbursements, policy and procedures, and approves all financial activities. The ESC is staffed by 30 non-certified employees, 88 certified employees, and 8 administrators to provide services to approximately 22,615 students throughout Crawford, Morrow, and Richland Counties. The ESC is also a sponsor for GOAL Digital Academy and the Tomorrow Center.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

The ESC is fiscal agent for the Business Advisory Council (the “Council”) and the Succeed & Prosper through Education-Ashland, Richland and Crawford Counties (“SPARC”). The ESC is responsible for receiving and disbursing funds at the direction of the Council and SPARC. These entities are legally separate from the ESC. The ESC is fiscal agent and custodian for the Council and SPARC, but is not accountable; therefore, the operations of the Council and SPARC have been included as an agency fund in the ESC’s cash basis basic financial statements. The funds invested on behalf of the Council and SPARC have been included in the cash basis basic financial statements as “equity in pooled cash and cash investments”.

The following organizations are discussed due to their relationship to the ESC:

JOINTLY GOVERNED ORGANIZATIONS

Heartland Council of Governments/North Central Ohio Computer Cooperative (the “COG”)

The COG is a jointly governed organization among 15 school districts, 1 educational service center and a career center. The COG was formed for the purpose of applying modern technology with computers and other electronic technology to aid administrative and instructional functions. Each member district supports the COG based on a per pupil charge, dependent upon the software package utilized. The COG is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have any equity interest in the COG. Financial information can be obtained from Linda Schumacher, Treasurer of the Pioneer Career and Technology Center, who serves as fiscal agent, at 27 Ryan Road, Shelby, Ohio 44875-0309.

Ohio Business Advisory Councils

Under Ohio Revised Code (ORC) Section 3313.174 and ORC 3313.82, all school districts and educational service centers (ESC’s) are required to appoint a Business Advisory Council (BAC). An ESC’s BAC may also serve as the BAC for any school district that has entered into a service agreement with an ESC under ORC 3313.843 or 3313.845 “if the school district and the educational service center agree that the educational service center’s council will represent the business of the district.”

BAC’s must advise and provide recommendations to the ESC governing board on all matters specified by the ESC governing board including but not limited to:

- the delineation of employment skills and the development of curriculum to instill these skills;
- changes in the economy and in the job market, and the types of employment in which future jobs are most likely to be available;
- and suggestions for developing a working relationship among businesses, labor organizations, and educational personnel.

The purpose of the BAC is to foster cooperation among schools, businesses, and the communities they serve. This work of educators aligns with the needs of businesses. This cooperation can make a local education system more aware of the local labor market, promote work-based experiences within businesses, and help students prepare for successful learning and employment opportunities.

The BAC membership will reflect area businesses, including large and small employers, community service organizations, higher education leaders, government agencies, K-12 educational leaders, and labor organization representatives.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

The Superintendent of the ESC will facilitate two-way communication between schools and business, industry, and community service organizations. The BAC will develop a written plan that will be updated annually. The plan will be filed with the Ohio Department of Education. The BAC shall meet at least quarterly and shall file a joint statement no later than March 1 each school year describing how the ESC and its business advisory council has fulfilled required responsibilities pursuant to section 3313.82 of the Revised Code.

The ESC has no financial interest or financial responsibility to the BAC.

Pioneer Career and Technology Center

The Pioneer Career and Technology Center (the "Center"), is a distinct political subdivision of the State of Ohio, operated under the direction of an eleven-member Board of Education, which consists of one representative from each of the participating school district's elected board. The Center possesses its own budgeting and taxing authority. Financial information is available from Linda Schumacher, Treasurer of the Pioneer Career and Technology Center at 27 Ryan Road, Shelby, Ohio 44875. The ESC has no ongoing financial interest or financial responsibility to the Center.

Tri-Rivers Career Center

The Tri-Rivers Career Center (the "Center") is a political subdivision of the State of Ohio. The Center is operated under the direction of a thirteen-member Board of Education, which consists of one representative from each of the participating school districts' elected boards. The Center possesses its own budgeting and taxing authority. Financial information is available from Tammi Cowell, Treasurer of the Tri-Rivers Career Center, at 2222 Marion/Mt. Gilead Road, Marion, Ohio 43302. The ESC has no ongoing financial interest or financial responsibility to the Center.

PUBLIC ENTITY RISK POOLS

Risk Sharing Pool

The Stark County Schools Council of Governments Health Benefit Plan is a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The consortium is governed by an assembly which consists of one representative from each participating school district (usually the superintendent or designee). The assembly elects officers for one year terms to serve on the Board of Directors. The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services. See Note 6.B. for further information.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan was established under Section 4123.29 of the Ohio Revised Code. The Plan's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. See Note 6.C. for further information pertaining to this insurance purchasing pool.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

Schools of Ohio Risk Sharing Authority

The ESC participates in the Schools of Ohio Risk Sharing Authority Board (SORSA), an insurance purchasing pool. SORSA's business affairs are conducted by a nine-member Board of directors consisting of a President, Vice President, Secretary, Treasurer and five delegates. SORSA was created to provide joint self-insurance coverage and to assist members to prevent and reduce losses and injuries to the ESC's property and person. It is intended to provide liability and property insurance at reduced premiums for the participants. SORSA is organized as a nonprofit corporation under provisions of Ohio Revised Code 2744. See Note 6.A. for further information.

B. Basis of Accounting

Although required by Ohio Administrative Code § 117-2-03(B) to prepare its annual financial report in accordance with GAAP, the ESC chooses to prepare its financial statements and notes on the cash basis of accounting. The cash basis of accounting is a comprehensive basis of accounting other than GAAP. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

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

C. Fund Accounting

The ESC uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary. The ESC does not have proprietary funds.

GOVERNMENTAL FUNDS

The ESC classifies funds financed primarily from intergovernmental receipts (e.g. grants) and other non-exchange transactions as governmental funds. The following is the ESC's major governmental fund:

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

Other governmental funds of the ESC are used to account for specific revenue sources that are restricted or committed to an expenditure for specified purposes other than debt service or capital projects.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

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 agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds account for various resources held for other organizations and individuals, including the Business Advisory Council and Succeed & Prosper through Education-Ashland, Richland, and Crawford Counties ("SPARC").

D. Basis of Presentation

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

The government-wide statement of activities - cash basis compares disbursements with program receipts for each function or program of the ESC's governmental activities. These disbursements are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts which are not classified as program receipts are presented as general receipts of the ESC. The comparison of direct disbursements with program receipts identifies the extent to which each business segment or governmental function is self-financing on the cash basis or draws from the general receipts of the ESC.

Fund Financial Statements - Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

E. Budgets

Educational service centers do not have the authority to adopt annual legally-adopted appropriation budgets. However, the ESC has chosen to adopt an appropriation resolution for internal control purposes. Therefore, even though a statement or schedule of budgetary results is not required to be presented, the ESC has chosen to present a budgetary schedule as supplementary information.

F. Cash and Investments

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

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

During fiscal year 2019, investments were limited to State Treasury Asset Reserve of Ohio (“STAR Ohio”), negotiable certificates of deposit, U.S. Government money market accounts, U.S. Treasury bills, U.S. Treasury bonds, commercial paper, and federal agency securities. Investments are reported at cost.

The ESC invested in STAR Ohio during fiscal year 2019. STAR Ohio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, “Certain External Investment Pools and Pool Participants.” The ESC measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Governing Board. Interest revenue credited to the general fund during fiscal year 2019 amounted to \$180,465, which includes \$2,757 in interest assigned from other funds.

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

G. Capital Assets

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

H. Unpaid Vacation and Sick Leave

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

I. Long-Term Obligations

Long-term obligations arising from cash basis transactions of governmental funds is not reported as liabilities on the cash basis financial statements. The debt proceeds are reported as cash when received and payment of principal and interest are reported as disbursements when paid.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

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

J. Fund Cash Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact.

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

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Board of Governors (the highest level of decision-making authority). Those committed amounts cannot be used for any other purpose unless the ESC Board of Governors removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the ESC Board of Governors, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

The ESC applies restricted resources first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is 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.

K. Net Cash Position

Net cash position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. Other purposes consist of balances of the Timken Foundation Grant Fund.

The ESC applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted net cash position is available. As of June 30, 2019, there was no net cash position restricted by enabling legislation.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

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

L. Interfund Activity

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

M. Pensions/Other Postemployment Benefits (OPEB)

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

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Governing Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2019.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

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

B. Change in Accounting Principles

For fiscal year 2019, the ESC has implemented GASB Statement No. 83, "Certain Asset Retirement Obligations" and GASB Statement No. 88, "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements".

GASB Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. The implementation of GASB Statement No. 83 did not have an effect on the financial statements of the ESC.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

GASB Statement No. 88 improves the information that is disclosed in notes to the basic financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The implementation of GASB Statement No. 88 did not have an effect on the financial statements of the ESC.

C. Deficit Fund Balances

Fund balances at June 30, 2019 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Title I	\$ 21,183
Miscellaneous Federal Grants	43,273

The general fund is liable for any deficit in these funds and provides transfers when cash is required. The deficit fund balances resulted from advance spending of approved grant monies and is allowable under Ohio Revised Code Section 3315.20.

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States Treasury 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;

**MID-OHIO EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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 requirement 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); and
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 ESC's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

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

A. Deposits with Financial Institutions

At June 30, 2019, the carrying amount of all ESC deposits was \$6,004,062 and the bank balance of all ESC deposits was \$6,360,604. Of the bank balance, \$6,143,183 was covered by the FDIC and \$217,421 was covered by the Ohio Pooled Collateral System.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2019, the ESC had the following investments and maturities:

Investment type	Carrying Value	NAV/ Fair Value	Investment Maturities				
			6 months or less	7 to 12 months	13 to 18 months	19 to 24 months	Greater than 24 months
Negotiable CD's	\$ 2,425,000	\$ 2,450,305	\$ -	\$ 426,600	\$ 1,008,635	\$ 404,858	\$ 610,212
FFCB	100,000	99,417	-	99,417	-	-	-
FNMA	449,984	447,726	199,572	99,266	-	99,172	49,716
FHLMC	150,250	149,957	-	49,785	-	-	100,172
U.S. Treasury Bill	194,783	198,824	198,824	-	-	-	-
U.S. Treasury Bond	99,313	99,948	99,948	-	-	-	-
Commercial Paper	221,727	221,727	221,727	-	-	-	-
U.S. Government							
Money Market	37,397	37,397	37,397	-	-	-	-
STAR Ohio	111,673	111,673	111,673	-	-	-	-
Total	<u>\$ 3,790,127</u>	<u>\$ 3,816,974</u>	<u>\$ 869,141</u>	<u>\$ 675,068</u>	<u>\$ 1,008,635</u>	<u>\$ 504,030</u>	<u>\$ 760,100</u>

The weighted average maturity of investments is 1.23 years.

Interest Rate Risk: Interest rate risk arises when potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the ESC's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: The ESC's investments in federal agency securities, U.S. Treasury bills and U.S. Treasury bonds were rated AA+ and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The commercial paper, negotiable certificates of deposit and U.S. government money market account were not rated. The ESC has no investment policy dealing with investments credit risk beyond the requirements in State statutes.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities, U.S. Treasury Bills and U.S. Treasury bonds are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the ESC's name. The ESC has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The ESC places no limit on the amount that may be invested in any one issuer.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

The following table includes the percentage of each investment type held by the ESC at June 30, 2019:

<u>Investment type</u>	<u>Carrying Value</u>	<u>% of total</u>
Negotiable CD's	\$ 2,425,000	63.98
FFCB	100,000	2.64
FNMA	449,984	11.87
FHLMC	150,250	3.96
U.S. Treasury Bill	194,783	5.14
U.S. Treasury Bond	99,313	2.62
Commercial Paper	221,727	5.85
U.S. Government		
Money Market	37,397	0.99
STAR Ohio	111,673	2.95
Total	<u>\$ 3,790,127</u>	<u>100.00</u>

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

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2019:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 6,004,062
Investments	<u>3,790,127</u>
Total	<u>\$ 9,794,189</u>

<u>Cash and investments per statement of net position</u>	
Governmental activities	\$ 9,671,684
Agency funds	<u>122,505</u>
Total	<u>\$ 9,794,189</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 5 - LONG-TERM OBLIGATIONS

During fiscal year 2019, the following changes occurred in the ESC's long-term obligations:

	Balance Outstanding <u>June 30, 2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>June 30, 2019</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Capital lease	\$ 65,501	\$ -	\$ (13,614)	\$ 51,887	\$ 14,135

In a prior fiscal year, the ESC entered into a capital lease for copiers. The terms of this lease agreement provide an option to purchase the copiers. This lease meets the criteria of a capital lease, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service disbursements in the statement of cash receipts, cash disbursements, and changes in fund cash balances – governmental funds. These disbursements are reflected as program/function disbursements on a budgetary basis. Principal payments in the 2019 fiscal year totaled \$13,614. This amount is reflected as debt service principal retirement in the general fund.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2019:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 15,846
2021	15,846
2022	15,846
2023	<u>7,922</u>
Total minimum lease payments	55,460
Less amount representing interest	<u>(3,573)</u>
Total	<u>\$ 51,887</u>

NOTE 6 - RISK MANAGEMENT

A. Comprehensive Insurance

The ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ESC maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are fully insured. During fiscal year 2019, the ESC contracted with Trident Insurance Services for the first half of the fiscal year and with the Schools of Ohio Risk Sharing Authority (SORSA) for the second half of the fiscal year (Note 2.A.).

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 6 - RISK MANAGEMENT – (Continued)

Coverages are as follows:

	<u>Trident</u>
Building contents - replacement cost (\$1,000 deductible)	\$17,397,730
General liability per occurrence/excess	1,000,000 / 3,000,000
	<u>SORSA</u>
Building contents - replacement cost (\$1,000 deductible)	\$16,891,000
General liability per occurrence/excess	5,000,000 / 10,000,000

Settled claims have not exceeded these coverages in any of the past three years. There has been no significant reduction in coverage from the prior year.

B. Health Benefits

For fiscal year 2019, the ESC has contracted with the Stark County Schools Council of Governments (a shared risk pool) (Note 2.A.) to provide employee medical/surgical benefits. Rates are set through an annual calculation process. The ESC pays a monthly contribution which is placed in a common fund from which claim payments are made for all participating entities. The ESC's Governing Board pays a percentage of the premiums. For fiscal year 2019, the monthly premium for medical/prescription was \$1,899.25 for family coverage and \$781.91 for single coverage, the Board pays 85% and 90% respectively; dental was \$244.92 for family coverage and \$99.34 for single coverage, the Board pays 85% and 90% respectively; vision was \$52.02 for family coverage and \$20.86 for single coverage, with nothing paid by the Board; and life insurance was \$3.75 for family or single coverage and the Board pays 100%.

Postemployment health care is provided to plan participants or their beneficiaries through the respective retirement systems discussed in Note 8.

C. Workers' Compensation

For fiscal year 2019, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan") (Note 2.A.), an insurance purchasing pool. The intent of the Plan is to achieve the benefit of a reduced premium for the ESC by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating entities is calculated as one experience and a common premium rate is applied to all entities in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings of the Plan. A participant will then either receive money from or be required to contribute to the "equity pooling fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to entities that can meet the Plan's selection criteria. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the Plan.

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

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

Funding Policy - Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10% for plan members and 14% for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5%. The remaining 0.5% of the employer contribution rate was allocated to the Health Care Fund.

The ESC's contractually required contribution to SERS was \$184,640 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB Plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. Effective July 1, 2017, the cost-of-living adjustment was reduced to zero. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

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

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

Funding Policy - Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year 2019, plan members were required to contribute 14% of their annual covered salary. The ESC was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2019 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was \$796,729 for fiscal year 2019.

Net Pension Liability

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the projected contributions of all participating entities.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the net pension liability prior measurement date	0.05112660%	0.05576393%	
Proportion of the net pension liability current measurement date	<u>0.05601370%</u>	<u>0.05340521%</u>	
Change in proportionate share	<u>0.00488710%</u>	<u>-0.00235872%</u>	
Proportionate share of the net pension liability	\$ 3,208,008	\$ 11,742,607	\$ 14,950,615

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
COLA or ad hoc COLA	2.50%, on and after April 1, 2018, COLA's for future retirees will be delayed for three years following commencement
Investment rate of return	7.50% net of investments expense, including inflation
Actuarial cost method	Entry age normal (level percent of payroll)

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

For 2018, the mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates. Mortality among disabled members was based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 7 - DEFINED BENEFIT PENSION PLANS - (Continued)

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	\$ 4,518,722	\$ 3,208,008	\$ 2,109,063

Actuarial Assumptions - STRS

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

	July 1, 2018
Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%
Cost-of-living adjustments (COLA)	0.0%, effective July 1, 2017

For the July 1, 2018, actuarial valuation, post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50% of rates through age 69, 70% of rates between ages 70 and 79, 90% of rates between ages 80 and 84, and 100% of rates thereafter, projected forward generationally using mortality improvement scale MP-2016. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90% of rates for males and 100% of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

Actuarial assumptions used in the July 1, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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

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

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

**The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

Discount Rate - The discount rate used to measure the total pension liability was 7.45% as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
ESC's proportionate share of the net pension liability	\$ 17,148,531	\$ 11,742,607	\$ 7,167,225

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 8 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability/Asset

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5% of covered payroll 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 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the ESC's surcharge obligation was \$29,758.

The surcharge added to the allocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The ESC's contractually required contribution to SERS was \$36,597 for fiscal year 2019.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2020. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14% of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Net OPEB Liability/Asset

The net OPEB liability/asset was measured as of June 30, 2018, and the total OPEB liability/asset used to calculate the net OPEB liability/asset was determined by an actuarial valuation as of that date. The ESC's proportion of the net OPEB liability/asset was based on the ESC'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:

	SERS	STRS	Total
Proportion of the net OPEB liability prior measurement date	0.05187900%	0.05576393%	
Proportion of the net OPEB liability/asset current measurement date	<u>0.05663690%</u>	<u>0.05340521%</u>	
Change in proportionate share	<u>0.00475790%</u>	<u>-0.00235872%</u>	
Proportionate share of the net OPEB liability	\$ 1,571,261	\$ -	\$ 1,571,261
Proportionate share of the net OPEB asset	\$ -	\$ (858,167)	\$ (858,167)

Actuarial Assumptions - SERS

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

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

Wage inflation	3.00%
Future salary increases, including inflation	3.50% to 18.20%
Investment rate of return	7.50% net of investments expense, including inflation
Municipal bond index rate:	
Measurement date	3.62%
Prior measurement date	3.56%
Single equivalent interest rate, net of plan investment expense, including price inflation:	
Measurement date	3.70%
Prior measurement date	3.63%
Medical trend assumption:	
Medicare	5.375 to 4.75%
Pre-Medicare	7.25 to 4.75%

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

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

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Discount Rate - The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70%. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2026. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2025 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62%, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. A municipal bond rate of 3.56% was used as of June 30, 2017. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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**MID-OHIO EDUCATIONAL SERVICE CENTER
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Sensitivity of the ESC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates - The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
ESC's proportionate share of the net OPEB liability	\$ 1,906,601	\$ 1,571,261	\$ 1,305,734

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
ESC's proportionate share of the net OPEB liability	\$ 1,267,719	\$ 1,571,261	\$ 1,973,204

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, compared with July 1, 2017, are presented below:

	July 1, 2018	July 1, 2017
Inflation	2.50%	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65	12.50% at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation	7.45%, net of investment expenses, including inflation
Payroll increases	3.00%	3.00%
Cost-of-living adjustments (COLA)	0.00%	0.00%, effective July 1, 2017
Discounted rate of return	7.45%	N/A
Blended discount rate of return	N/A	4.13%
Health care cost trends		6 to 11% initial, 4.50% ultimate
	Initial	Ultimate
Medical		
Pre-Medicare	6.00%	4.00%
Medicare	5.00%	4.00%
Prescription Drug		
Pre-Medicare	8.00%	4.00%
Medicare	-5.23%	4.00%

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Assumption Changes Since the Prior Measurement Date - 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.

Benefit Term Changes Since the Prior Measurement Date - The subsidy multiplier for non-Medicare benefit recipients was increased from 1.90% 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.

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

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

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

** The Target Allocation percentage is effective as of July 1, 2017. Target weights will be phased in over a 24-month period concluding on July 1, 2019.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE 8 - DEFINED BENEFIT OPEB PLANS - (Continued)

Discount Rate - The discount rate used to measure the total OPEB asset was 7.45% as of June 30, 2018. A discount rate used to measure the total OPEB liability was 4.13% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45% was used to measure the total OPEB asset as of June 30, 2018.

Sensitivity of the ESC's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate - The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45%, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) or one percentage point higher (8.45%) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
ESC's proportionate share of the net OPEB asset	\$ 735,530	\$ 858,167	\$ 961,238
	1% Decrease	Current Trend Rate	1% Increase
ESC's proportionate share of the net OPEB asset	\$ 955,420	\$ 858,167	\$ 759,400

NOTE 9 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the ESC. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the ESC.

B. Litigation

The ESC is involved in no material litigation as either plaintiff or defendant.

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SUPPLEMENTARY INFORMATION

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

SUPPLEMENTARY INFORMATION

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCE - BUDGET AND ACTUAL - BUDGETARY BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Cash Receipts:				
From Local Sources:				
Tuition	\$ 5,677,182	\$ 5,423,258	\$ 5,483,629	\$ 60,371
Contract Services	2,349,224	2,243,978	2,331,144	87,166
Earnings on Investments	507,829	454,973	493,591	38,618
Extracurricular	120,844	90,995	85,276	(5,719)
Contributions and Donations	2,623	984	850	(134)
Other Local Revenues	48,845	39,501	39,815	314
Intergovernmental - State	2,772,007	2,700,740	2,705,195	4,455
Intergovernmental - Federal	409,470	392,316	370,437	(21,879)
Total Cash Receipts	<u>11,888,024</u>	<u>11,346,745</u>	<u>11,509,937</u>	<u>163,192</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	98,468	98,209	83,123	15,086
Special	2,400,894	2,446,213	2,580,351	(134,138)
Other	18,686	18,683	19,043	(360)
Support services:				
Pupil	4,249,024	4,248,528	4,339,896	(91,368)
Instructional Staff	1,178,450	1,178,314	1,185,552	(7,238)
Board of Education	59,542	59,536	54,016	5,520
Administration	1,267,578	1,264,685	1,248,574	16,111
Fiscal	594,623	602,050	633,429	(31,379)
Business	199,081	196,237	165,322	30,915
Operations and Maintenance	768,183	761,620	550,119	211,501
Central	499,975	506,426	429,762	76,664
Other Operation of Non-Instructional Services	60,383	60,380	20,414	39,966
Facilities Acquisition and Construction	467,123	109,110	110,372	(1,262)
Total Cash Disbursements	<u>11,862,010</u>	<u>11,549,991</u>	<u>11,419,973</u>	<u>130,018</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	<u>26,014</u>	<u>(203,246)</u>	<u>89,964</u>	<u>293,210</u>
Other Financing Sources (Uses):				
Refund of Prior Year's Expenditures	19,554	18,621	20,139	1,518
Refund of Prior Year's Receipts	(146)	(146)	(150)	(4)
Transfers In	335,536	329,430	131,861	(197,569)
Transfers (Out)	(328,563)	(128,547)	(131,861)	(3,314)
Sale of Assets	2,608	2,426	3,938	1,512
Total Other Financing Sources (Uses)	<u>28,989</u>	<u>221,784</u>	<u>23,927</u>	<u>(197,857)</u>
Net Change in Fund Cash Balance	55,003	18,538	113,891	95,353
Unencumbered Fund Cash				
Balance at Beginning of Year	<u>9,527,824</u>	<u>9,527,824</u>	<u>9,527,824</u>	<u>-</u>
Unencumbered Fund Cash				
Balance at End of Year	<u>\$ 9,582,827</u>	<u>\$ 9,546,362</u>	<u>\$ 9,641,715</u>	<u>\$ 95,353</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTARY INFORMATION

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

NOTES TO THE SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE A - SIGNIFICANT ACCOUNTING POLICY

The ESC has chosen to prepare its financial statements and notes on the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred.

The ESC also prepares its budget on the cash basis of accounting. The differences between the schedule of cash receipts, cash disbursements and changes in fund cash balances - budget and actual (budgetary basis) (the "schedule") and the statement of cash receipts, cash disbursements and changes in fund balances (the "statement") are the reclassification of various receipts and disbursements made on the statement and not made on the schedule. In addition, certain funds that are legally budgeted in separate special revenue funds are considered part of the general fund on the statement of cash receipts, cash disbursements and changes in fund cash balances. This includes a portion of the special rotary fund.

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis schedule.

Net Change in Fund Cash Balance	
	<u>General Fund</u>
Budget basis	\$ 113,891
Net adjustment for revenues of funds budgeted elsewhere accruals	16,760
Net adjustment for disbursements budgeted elsewhere	<u>(16,760)</u>
Cash basis	<u>\$ 113,891</u>

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**MID-OHIO EDUCATIONAL SERVICE CENTER
 RICHLAND COUNTY, OHIO
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

FEDERAL GRANTOR/ SUB GRANTOR/ PROGRAM TITLE	CFDA NUMBER	(C) PASS-THROUGH ENTITY IDENTIFYING NUMBER / ADDITIONAL AWARD IDENTIFICATION	(A) TOTAL FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through the Ohio Department of Education</i>			
Child Nutrition Cluster:			
(D) School Breakfast Program	10.553	2019	\$ 107,315
(D) National School Lunch Program	10.555	2019	188,093
Total U.S. Department of Agriculture and Child Nutrition Cluster:			<u>295,408</u>
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through the Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies - Delinquent	84.010	2018	1,346
Title I Grants to Local Educational Agencies - Delinquent	84.010	2019	131,107
Title I Grants to Local Educational Agencies - Neglected	84.010	2018	802
Title I Grants to Local Educational Agencies - Neglected	84.010	2019	87,218
Total Title I Grants to Local Educational Agencies:			<u>220,473</u>
Comprehensive Literacy Development - Striving Readers	84.371	2018	99
Comprehensive Literacy Development - Striving Readers	84.371	2019	411,004
Total Comprehensive Literacy Development - Striving Readers:			<u>411,103</u>
Total U.S. Department of Education:			<u>631,576</u>
Total Federal Expenditures:			<u>\$ 926,984</u>

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

- (A) This schedule includes the federal award activity of the Mid-Ohio Educational Service Center under programs of the federal government for the fiscal year ended June 30, 2019 and is prepared in accordance with the cash basis of accounting. The information on this schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Mid-Ohio Educational Service Center, it is not intended to and does not present the financial position or changes in net position of the Mid-Ohio Educational Service Center.
- (B) CFR Section 200.414 of the Uniform Guidance allows a non-federal entity that has never received a negotiated indirect cost rate to charge a de minimis rate of 10% of modified total direct costs to indirect costs. The ESC has not elected to use the 10% de minimis indirect cost rate.
- (C) OAKS did not assign pass-through numbers for fiscal year 2019.
- (D) Commingled with state and local revenue from sales of breakfasts and lunches; assumed expenditures were made on a first-in, first-out basis.

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Required by *Government Auditing Standards***

Mid-Ohio Educational Service Center
Richland County
890 West Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash basis financial statements of the governmental activities, its major fund, and the aggregate remaining fund information of the Mid-Ohio Educational Service Center, Richland County, Ohio, as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Mid-Ohio Educational Service Center's basic financial statements and have issued our report thereon dated December 20, 2019, wherein we noted the Mid-Ohio Educational Service Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Mid-Ohio Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2019-001.

Mid-Ohio Educational Service Center's Response to Finding

Mid-Ohio Educational Service Center's response to the finding identified in our audit is described in the accompanying corrective action plan. We did not subject the Mid-Ohio Educational Service Center's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Julian & Grube, Inc.
December 20, 2019



Julian & Grube, Inc.
Serving Ohio Local Governments

333 County Line Rd. West, Westerville, OH 43082 Phone: 614.846.1899 Fax: 614.846.2799

**Independent Auditor's Report on Compliance with Requirements Applicable to the Major Federal Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

Mid-Ohio Educational Service Center
Richland County
890 West Fourth Street, Suite 100
Mansfield, Ohio 44906

To the Board of Governors:

Report on Compliance for the Major Federal Program

We have audited the Mid-Ohio Educational Service Center's compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Mid-Ohio Educational Service Center's major federal program for the fiscal year ended June 30, 2019. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Mid-Ohio Educational Service Center's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Mid-Ohio Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the fiscal year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

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

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



Julian & Grube, Inc.
December 20, 2019

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2019**

1. SUMMARY OF AUDITOR'S RESULTS		
<i>(d)(1)(i)</i>	<i>Type of Financial Statement Opinion</i>	Unmodified
<i>(d)(1)(ii)</i>	<i>Were there any material control weaknesses reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(ii)</i>	<i>Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?</i>	No
<i>(d)(1)(iii)</i>	<i>Was there any reported material noncompliance at the financial statement level (GAGAS)?</i>	Yes
<i>(d)(1)(iv)</i>	<i>Were there any material internal control weaknesses reported for major federal programs?</i>	No
<i>(d)(1)(iv)</i>	<i>Were there any significant deficiencies in internal control reported for major federal programs?</i>	No
<i>(d)(1)(v)</i>	<i>Type of Major Program's Compliance Opinion</i>	Unmodified
<i>(d)(1)(vi)</i>	<i>Are there any reportable findings under 2 CFR §200.516(a)?</i>	No
<i>(d)(1)(vii)</i>	<i>Major Program (listed):</i>	Comprehensive Literacy Development – Striving Readers – CFDA #84.371
<i>(d)(1)(viii)</i>	<i>Dollar Threshold: Type A/B Programs</i>	Type A: > \$750,000 Type B: all others
<i>(d)(1)(ix)</i>	<i>Low Risk Auditee under 2 CFR § 200.520?</i>	No

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2019**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS	
Finding Number	2019-001

Noncompliance

Ohio Revised Code Section 117.38 provides each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Revised Code Section 117.38. Ohio Administrative Code Section 117-2-03(B) requires the Mid-Ohio Educational Service Center (the "ESC") to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP).

The ESC prepares its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from GAAP.

There would be variances on the financial statements between this accounting practice and GAAP that, while presumably material, cannot be reasonably determined at this time. Failure to prepare proper GAAP financial statements may result in the ESC being fined or other administrative remedies.

The ESC should prepare its financial statements in accordance with GAAP.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

**MID-OHIO EDUCATIONAL SERVICE CENTER
RICHLAND COUNTY, OHIO**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
2 CFR SECTION 200.511(b)
JUNE 30, 2019**

<u>Finding Number</u>	<u>Year Initially Occurred</u>	<u>Finding Summary</u>	<u>Status</u>	<u>Additional Information</u>
2018-001	2007	<u>Noncompliance</u> : Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(B) required the ESC to prepare its annual financial report in accordance with GAAP, however, the ESC prepared its annual financial report in accordance with the cash basis of accounting in a report format similar to the requirements in GASB Statement No. 34.	Not Corrected	Repeated as finding 2019-001 as the ESC prepared its annual financial report in accordance with the cash basis of accounting.



Kevin Kimmel
Superintendent

Lorraine A. Earnest
Treasurer

CORRECTIVE ACTION PLAN
2 CFR SECTION 200.511(c)
JUNE 30, 2019

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
2019-001	It has been determined by the ESC that the benefits received, from preparing GAAP reports, do not exceed the increased cost to prepare them, including also the corresponding increased audit costs. The priority of the ESC continues to be focused on containing costs whenever possible; thereby, minimizing costs that are passed on to client and non-client districts/agencies. It is not anticipated that GAAP statements will be filed in the future.	N/A	Lorraine Earnest, Treasurer

OHIO AUDITOR OF STATE KEITH FABER



MID-OHIO EDUCATIONAL SERVICE CENTER

RICHLAND COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 19, 2020**