



OHIO AUDITOR OF STATE  
**KEITH FABER**





**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY  
JUNE 30, 2020 AND 2019**

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**PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY  
JUNE 30, 2020 AND 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

## INDEPENDENT AUDITOR'S REPORT

Preble County Educational Service Center  
Preble County  
597 Hillcrest Drive  
Eaton, Ohio 45320

To the Board of Education:

### ***Report on the Financial Statements***

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, Ohio (the Educational Service Center), as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, Ohio, as of June 30, 2020 and 2019, and the respective changes in modified cash financial position thereof for the fiscal years then ended in accordance with the accounting basis described in Note 2.

***Accounting Basis***

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

***Emphasis of Matter***

As discussed in Note 18 to the financial statements for fiscal years ended June 30, 2020 and 2019, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. We did not modify our opinion regarding this matter.

***Other Matters***

***Supplementary Information***

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

The Schedules of Receipts, Disbursements, and Changes in Fund Balance – Budget and Actual – Budget Basis for the General Fund presents additional analysis and are 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 the schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling the schedules 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, the schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2020, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Educational Service Center's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

October 30, 2020

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**Preble County Educational Service Center**  
Statement of Net Position - Modified Cash Basis  
June 30, 2020

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	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,820,895
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	<u>970,689</u>
<i>Total Assets</i>	<u>2,859,540</u>
<b>Liabilities:</b>	
Due Within One Year	74,591
Due In More Than One Year	<u>841,278</u>
<i>Total Liabilities</i>	<u>915,869</u>
<b>Net Position:</b>	
Net Investment in Capital Assets	122,776
Restricted for Title II-A	9,461
Unrestricted	<u>1,811,434</u>
<i>Total Net Position</i>	<u><u>\$1,943,671</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Activities - Modified Cash Basis  
For the Fiscal Year Ended June 30, 2020

	<u>Program Cash Receipts</u>			Net (Disbursements) Receipts and Changes in Net Position
	<u>Cash Disbursements</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$408,060	\$349,933	\$85,462	\$27,335
Special	1,789,547	2,334,170	0	544,623
Support Services:				
Pupils	1,232,220	1,044,372	1,718	(186,130)
Instructional Staff	147,191	60,469	10,989	(75,733)
Board of Education	19,097	0	0	(19,097)
Administration	460,298	344,881	0	(115,417)
Fiscal	321,578	713	0	(320,865)
Business	944	0	0	(944)
Operation and Maintenance of Plant	144,747	54,546	0	(90,201)
Pupil Transportation	376,446	413,828	40,631	78,013
Central	22,516	563	1,800	(20,153)
Operation of Non-Instructional Services	10,280	9,718	0	(562)
Extracurricular Activities	1,510	5,934	0	4,424
Interest and Fiscal Charges	46,792	0	0	(46,792)
<i>Totals</i>	<u>\$4,981,226</u>	<u>\$4,619,127</u>	<u>\$140,600</u>	<u>(221,499)</u>
<b>General Receipts:</b>				
Grants and Entitlements not Restricted to Specific Programs				151,684
Interest				27,155
Miscellaneous				89,245
<i>Total General Receipts</i>				<u>268,084</u>
<i>Change in Net Position</i>				46,585
<i>Net Position at Beginning of Year</i>				<u>1,897,086</u>
<i>Net Position at End of Year</i>				<u><u>\$1,943,671</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Assets and Fund Balances - Modified Cash Basis  
Governmental Funds  
June 30, 2020

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,811,343	\$9,459	\$1,820,802
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	93	0	93
<i>Total Assets</i>	<u>1,811,436</u>	<u>9,459</u>	<u>1,820,895</u>
<b>Fund Balances:</b>			
Nonspendable	93	0	93
Restricted	0	9,461	9,461
Assigned	127,013	0	127,013
Unassigned (Deficit)	<u>1,684,330</u>	<u>(2)</u>	<u>1,684,328</u>
<i>Total Fund Balances</i>	<u><u>\$1,811,436</u></u>	<u><u>\$9,459</u></u>	<u><u>\$1,820,895</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities - Modified Cash Basis  
 June 30, 2020

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<b>Total Governmental Fund Balance</b>	<b>\$1,820,895</b>
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*Amounts reported for governmental activities in the statement of net position are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land	67,956
Buildings	1,421,609
Furniture, Fixtures, and Equipment	113,518
Vehicles	539,029
Accumulated Depreciation	<u>(1,103,467)</u>

Total Capital Assets	1,038,645
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Financed purchases are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(915,869)</u>
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<i>Net Position of Governmental Activities</i>	<u><u>\$1,943,671</u></u>
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See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Cash Receipts, Disbursements and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2020

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Receipts:</b>			
Intergovernmental	\$192,315	\$88,980	\$281,295
Interest	27,155	0	27,155
Tuition and Fees	4,453,080	0	4,453,080
Rent	30,000	0	30,000
Gifts and Donations	10,989	0	10,989
Charges for Services	136,047	0	136,047
Miscellaneous	88,954	291	89,245
<i>Total Receipts</i>	<u>4,938,540</u>	<u>89,271</u>	<u>5,027,811</u>
<b>Disbursements:</b>			
Current:			
Instruction:			
Regular	323,988	85,749	409,737
Special	1,786,052	0	1,786,052
Support Services:			
Pupils	1,227,665	1,724	1,229,389
Instructional Staff	129,869	0	129,869
Board of Education	19,097	0	19,097
Administration	430,461	0	430,461
Fiscal	319,418	0	319,418
Business	944	0	944
Operation and Maintenance of Plant	142,199	0	142,199
Pupil Transportation	543,792	0	543,792
Central	20,716	1,800	22,516
Operation of Non-Instructional Services	9,299	0	9,299
Extracurricular Activities	1,510	0	1,510
Debt Service:			
Principal	74,780	0	74,780
Interest and Fiscal Charges	46,792	0	46,792
<i>Total Disbursements</i>	<u>5,076,582</u>	<u>89,273</u>	<u>5,165,855</u>
<i>Excess of Receipts Under Disbursements</i>	(138,042)	(2)	(138,044)
<b>Other Financing Sources:</b>			
Inception of Financed Purchase	96,649	0	96,649
<i>Net Change in Fund Balances</i>	(41,393)	(2)	(41,395)
<i>Fund Balances at Beginning of Year</i>	<u>1,852,829</u>	<u>9,461</u>	<u>1,862,290</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,811,436</u></u>	<u><u>\$9,459</u></u>	<u><u>\$1,820,895</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis  
 For the Fiscal Year Ended June 30, 2020

**Net Change in Fund Balances - Total Governmental Funds** (\$41,395)

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

Governmental funds report capital outlays as disbursements. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation disbursement. In the current period, these amounts are:

Capital Outlay	202,287
Depreciation Disbursement	<u>(84,347)</u>

Excess of Capital Outlay over Depreciation 117,940

The proceeds from the sale of capital assets are reported as receipts in the governmental funds. However, the cost of the capital assets are removed from the capital assets account in the statement of net position and offset against the proceeds from the sale of capital assets resulting in a loss on the disposal of capital assets in the statement of activities.

Loss on Disposal of Capital Assets (8,091)

Repayment of financed purchases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

74,780

Inception of financed purchases are reported as other financing sources in the governmental funds, but the inception increases long-term liabilities on the statement of activities.

(96,649)

*Change in Net Position of Governmental Activities*

\$46,585

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
June 30, 2020

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	Private Purpose Trust Fund	Agency Funds
<b>Assets:</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,377	\$51,363
<b>Liabilities:</b>		
Undistributed Monies	0	\$51,363
<b>Net Position:</b>		
Held in Trust for Scholarships	\$1,377	

See Accompanying Notes to the Basic Financial Statements

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## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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### **Note 1 – Description of the Educational Service Center and Reporting Entity**

The Preble County ESC (the “Educational Service Center”) is located in Eaton, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to area school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently. The Educational Service Center operates under a locally-elected governing board, consisting of five members elected at-large for staggered four-year terms.

#### *Reporting Entity*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Preble County Educational Service Center, this includes the general operations of the Educational Service Center.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Educational Service Center has no component units.

The Educational Service Center participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pools. These organizations are presented in Notes 11 and 12 to the basic financial statements. These organizations are:

#### Jointly Governed Organizations:

Southwest Ohio Computer Association

Southwestern Ohio Educational Purchasing Council

Preble County Professional Development Consortium

## Preble County Educational Service Center

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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### Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers'  
Compensation Group Rating Plan  
Southwestern Ohio Educational Purchasing Council Liability, Fleet and  
Property Program

### Shared Risk Pool:

Southwestern Ohio Educational Purchasing Cooperative Benefit  
Plan Trust

### **Note 2 – Summary of Significant Accounting Policies**

The financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The more significant of the Educational Service Center's accounting policies are described below.

### **Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

#### *Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type. The Educational Service Center, however, does not have any activities that are presented as business-type. Governmental activities generally are financed through intergovernmental receipts or other nonexchange transactions.

The Statement of Net Position presents the cash balance, capital assets, and debt of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities compares disbursements with program receipts for each function of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Educational Service Center's general receipts.

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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### *Fund Financial Statements*

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

### **Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center divides its funds into two categories: governmental and fiduciary.

### *Governmental Funds*

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

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

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

### *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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private purpose trust fund that accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for monies held for the Preble County Professional Development Consortium, activities on behalf of student work programs, and for contributions to employee's health reimbursement accounts.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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### **Basis of Accounting**

The Educational Service Center's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Educational Service Center are described in the appropriate section in this note.

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

Modifications to report capital assets and long-term obligations involved recording capital assets and long-term obligations that resulted from cash transactions.

### **Cash and Cash Equivalents**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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

During fiscal year 2020, the Educational Service Center's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 Educational Service Center measures their investment in STAROhio at the net asset value (NAV) per share provided by STAROhio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, 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.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest receipts credited to the General Fund during fiscal year 2020 were \$27,155, which includes \$903 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

### **Restricted Assets**

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

### **Inventory and Prepaid Items**

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

### **Capital Assets**

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported on the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of \$1,500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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<u>Description</u>	<u>Estimated Lives</u>
Buildings	25-80 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

**Accumulated Leave**

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

**Pensions/Other Postemployment Benefits (OPEB)**

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

**Long-Term Obligations**

Long-term obligations are reported in the government-wide financial statements. The Educational Service Center reported a liability for financed purchases, which arose from cash transactions.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center 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 category includes amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. Nonspendable fund balance for the Educational Service Center is unclaimed monies.

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

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level of formal action (resolution) of the Educational Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board of Education 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 Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education. The Treasurer has been given authority to assign amounts for these purposes by the Educational Service Center Board of Education. The Treasurer assigned fund balance to cover a gap between estimated revenue and appropriations in the 2021 appropriated budget.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

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

### **Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and State grants restricted to cash disbursement for specified purposes.

The Educational Service Center applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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**Estimates**

The modified cash basis of accounting used by the Educational Service Center requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation disbursement); accordingly, actual results could differ from those estimates.

**Note 3 – State and Local School District Funding**

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26.00 times the average daily membership of the Educational Service Center. This amount is then multiplied by a proration factor that is updated annually. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**Note 4 – Deposits and Investments**

Monies held by the Educational Service Center are classified by State statute into three categories.

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



## Preble County Educational Service Center

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

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

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

## Preble County Educational Service Center

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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6. No-load money market mutual funds consisting exclusively of obligations described in (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 (STAROhio); 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. The investment in commercial paper notes of a single issuer shall not exceed in the aggregate five percent of interim moneys available for investment at the time of purchase.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian

#### *Investments*

As of June 30, 2020, the Educational Service Center's only investment was \$1,533,605 with STAROhio. The average maturity of STAROhio at June 30, 2020, was 41.5 days and is valued at net asset value per share provided by STAROhio.

#### *Interest Rate Risk*

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the Educational Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. To date, no investments have been purchased with a life greater than five years. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's rated the Educational Service Center's investment in STAROhio AAAM. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

*Concentration of Credit Risk*

The Educational Service Center's investment policy places no limit on the amount it may invest in any one issuer.

**Note 5 – Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2020, was as follows:

	Balance at 6/30/2019	Additions	Deletions	Balance at 6/30/2020
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$67,956	\$0	\$0	\$67,956
Capital Assets Being Depreciated:				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	115,921	10,989	(13,392)	113,518
Vehicles	473,524	191,298	(125,793)	539,029
Total Capital Assets Being Depreciated	2,011,054	202,287	(139,185)	2,074,156
Less Accumulated Depreciation:				
Buildings	(711,017)	(47,373)	0	(758,390)
Furniture, Fixtures, and Equipment	(38,506)	(13,022)	5,301	(46,227)
Vehicles	(400,691)	(23,952)	125,793	(298,850)
Total Accumulated Depreciation	(1,150,214)	(84,347) *	131,094	(1,103,467)
Total Capital Assets Being Depreciated, Net	860,840	117,940	(8,091)	970,689
Total Capital Assets, Net	\$928,796	\$117,940	(\$8,091)	\$1,038,645

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$9,312
Special	3,495
Support Services:	
Pupils	2,831
Instructional Staff	17,322
Administration	21,746
Fiscal	2,160
Operation and Maintenance of Plant	2,548
Pupil Transportation	23,952
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$84,347</u>

**Note 6 – Risk Management**

**Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During fiscal year 2020, the Educational Service Center contracted with the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (Note 11) for general liability, property, and fleet insurance.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant changes in coverage from the last fiscal year.

**Workers' Compensation**

For fiscal year 2020, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 11). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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**Medical Benefits**

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool for medical insurance (See Note 12). The Educational Service Center pays monthly premiums to the Trust for employee medical benefits. The Educational Service Center pays monthly premiums to the Trust for dental, vision and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**Note 7 – Defined Benefit Pension Plans**

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

**Net Pension Liability/Net OPEB Liability (Asset)**

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

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

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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

The remainder of this note includes the required pension disclosures. See Note 8 for the required OPEB disclosures.

**Plan Description – School Employees Retirement System (SERS)**

Plan Description – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, 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](http://www.ohsers.org) under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent 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 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$162,515 for fiscal year 2020.

### **Plan Description – State Teachers Retirement System (STRS)**

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five year of service credit and age 65, or 35 years of service credit and at least age 60.

## Preble County Educational Service Center

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2020 employer and employee contribution rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2020, the full employer contribution was allocated to pension.

The Educational Service Center's contractually required contribution to STRS was \$201,303 for fiscal year 2020.



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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**Net Pension Liability**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.03361920%	0.01355631%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.03119770%</u>	<u>0.01353037%</u>	
Change in Proportionate Share	<u>(0.00242150%)</u>	<u>(0.00002594%)</u>	
Proportionate Share of the Net			
Pension Liability	\$1,866,613	\$2,992,160	\$4,858,773

**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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent 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 by using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalanced uncorrelated asset classes.

<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>	

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. 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 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Educational Service Center’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, 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 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$2,615,792	\$1,866,613	\$1,238,333

**Actuarial Assumptions – STRS**

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

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

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

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

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

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

\*\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	\$4,372,709	\$2,992,160	\$1,823,455

**Note 8 – Defined Benefit OPEB Plans**

See note 7 for a description of the net OPEB liability

**Plan Description – School Employees Retirement System (SERS)**

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

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Educational Service Center's surcharge obligation was \$22,650.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$22,650 for fiscal year 2020.

### **Plan Description – State Teachers Retirement System (STRS)**

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

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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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**Net OPEB Liability (Asset)**

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.03353410%	0.01355631%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.03180660%</u>	<u>0.01353037%</u>	
Change in Proportionate Share	<u>(0.00172750%)</u>	<u>(0.00002594%)</u>	
Proportionate Share of the Net			
OPEB Liability (Asset)	\$799,869	(\$224,096)	\$575,773

**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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.22 percent
Prior Measurement Date	3.70 percent
Medical Trend Assumption	
Medicare	5.25 to 4.75 percent
Pre-Medicare	7.00 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent 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 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 7.



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

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

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
Educational Service Center 's proportionate share of the net OPEB liability	\$970,889	\$799,869	\$663,888

  

	1% Decrease (6.00 % decreasing to 3.75%)	Current Trend Rate (7.00 % decreasing to 4.75%)	1% Increase (8.00 % decreasing to 5.75%)
Educational Service Center's proportionate share of the net OPEB liability	\$640,857	\$799,869	\$1,010,839

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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### Actuarial Assumptions – STRS

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

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 initial, 4 percent ultimate

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 7.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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

**Sensitivity of the Educational Service Center’s Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, 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 percent) or one percentage point higher (8.45 percent) 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.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$191,221)	(\$224,096)	(\$251,735)

  

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$254,114)	(\$224,096)	(\$187,330)

**Note 9 – Employee Benefits**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from the Educational Service Center’s policy. Employees whose annual term of employment is 243 and 223 days earn five to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Employees whose annual term of employment is 243 and 223 days earn sick leave at a rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 190 days. Upon retirement, payment is made for 25 percent of their accrued but unused sick leave credit to a maximum of 30 days.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

**125 Plan**

The Educational Service Center provides its full-time employees, except those employed on an as-needed basis, an option to participate in an I.R.C. Section 125 plan. Money allocated to this plan must be used for expenses covered by that benefit during that benefit year. Any monies not used by the end of the plan year are forfeited to the Educational Service Center. Employees may elect to have plan benefit dollars applied to an unreimbursed medical plan. Participation is renewed annually with each benefit year beginning September 1 and ending August 31. This plan is administered by American Fidelity Assurance Company.

**Note 10 – Long-Term Obligations**

Changes in long-term obligations for the Educational Service Center for the year ending June 30, 2020, were as follows:

	Amount Outstanding 6/30/2019	Additions	Deletions	Amount Outstanding 6/30/2020	Amounts Due Within One Year
<b><u>Governmental Activities:</u></b>					
Financed Purchases Payable:					
Building	\$894,000	\$0	\$49,000	\$845,000	\$52,000
School Bus	<u>0</u>	<u>96,649</u>	<u>25,780</u>	<u>70,869</u>	<u>22,591</u>
Total Governmental Activities	<u>\$894,000</u>	<u>\$96,649</u>	<u>\$74,780</u>	<u>\$915,869</u>	<u>\$74,591</u>

*Financed Purchases*

During fiscal year 2003, the Educational Service Center entered into a financed purchase agreement for a new building. This agreement met the criteria of a financed purchase which is defined as a financed purchase which transfers ownership to the lessee. Financed Purchase payments are reflected as debt expenditures in the fund financial statements. Principal payments made during fiscal year 2020 on the building totaled \$49,000. Payments are made from the General Fund.

During fiscal year 2020, the Educational Service Center entered into a financed purchase agreement for a new school bus. This agreement met the criteria of a financed purchase which is defined as a financed purchase which transfers ownership to the lessee. Financed Purchase payments are reflected as debt expenditures in the fund financial statements. Principal payments made during fiscal year 2020 on the building totaled \$25,780. Payments are made from the General Fund.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

The agreements provides for minimum annual financed purchase payments as follows:

<u>Year Ended</u>	<u>Building</u>	<u>School Bus</u>	<u>Total</u>
2021	\$96,132	\$25,780	\$121,912
2022	96,287	25,781	122,068
2023	96,278	25,780	122,058
2024	96,099	0	96,099
2025	95,753	0	95,753
2026-2030	477,644	0	477,644
2031-2032	188,931	0	188,931
Total Minimum Financed Payments	1,147,124	77,341	1,224,465
Less: Amount Representing Interest	(302,124)	(6,472)	(308,596)
Present Value of Net Minimum Financed Payments	<u>\$845,000</u>	<u>\$70,869</u>	<u>\$915,869</u>

**Note 11 – Jointly Governed Organizations and Insurance Purchasing Pool**

**Jointly Governed Organizations**

*Southwest Ohio Computer Association*

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Clinton, Darke, Hamilton, Montgomery, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. The governing board of SWOCA consists of one representative from each entity plus one representative from the fiscal agent. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid SWOCA \$13,288 for services provided during the fiscal year. The financial statements for SWOCA are available at 3611 Hamilton-Middletown Road, Hamilton, Ohio 45011.

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts and educational service centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services, including dental insurance, commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Council. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2020, the Educational Service Center did not make any payments to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

### *Preble County Professional Development Consortium*

The Educational Service Center is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts and educational service centers within the boundaries of Preble County. The organization was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts. The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The Educational Service Center did not make any payments to PCPDC during the fiscal year. Financial information can be obtained from Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyesc.org](mailto:kerry.borger@preblecountyesc.org).

On July 1, 2017, the PCPDC ceased operation; however, no formal action has been taken to dissolve the jointly governed organization.

### **Insurance Purchasing Pools**

#### *Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan*

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven-member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

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*Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program*

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program (LFP). The LFP's business and affairs are conducted by a six-member committee consisting of various LFP representatives that are elected by the General Assembly. The purpose of the Property, Fleet, and Liability Program of the SOEPC is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage, and other protections for participants.

**Note 12 – Shared Risk Pool**

*Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust*

The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool consisting of approximately 130 school districts. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**Note 13 – Fund Balances**

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<i><b>Nonspendable:</b></i>			
Unclaimed Monies	\$93	\$0	\$93
<i><b>Restricted for:</b></i>			
Title II-A	0	9,461	9,461
<i><b>Assigned to:</b></i>			
Future Appropriations	127,013	0	127,013
<i><b>Unassigned (Deficit)</b></i>	<u>1,684,330</u>	<u>(2)</u>	<u>1,684,328</u>
<i><b>Total Fund Balances</b></i>	<u>\$1,811,436</u>	<u>\$9,459</u>	<u>\$1,820,895</u>

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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### **Note 14 – Contingencies**

#### **Grants**

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

#### **School Foundation**

Educational Service Center foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. As of the date of this report, additional ODE adjustments for fiscal year 2020 are not finalized. As a result, the impact of future FTE adjustments on the fiscal year 2020 financial statements is not determinable, at this time. Management believes this may result in either an additional receivable to, or a liability of the Educational Service Center.

#### **Litigation**

This Educational Service Center is not currently a party to any legal proceedings.

### **Note 15 – Compliance**

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

### **Note 16 – Accountability**

At June 30, 2020, the Public School Preschool non-major special revenue fund had a deficit fund balance of \$2. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.



**Preble County Educational Service Center**  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020

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**Note 17 – Change in Accounting Principle**

For fiscal year 2020, the Educational Service Center implemented GASB Statement No. 87 “Leases”.

GASB 87 requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. These changes were incorporated in the Educational Service Center’s fiscal year 2020 financial statements, however, there was no effect on the beginning net position.

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The School District evaluated implementing these certain GASB pronouncements based on the guidance in GASB 95.

**Note 18 – COVID-19 Pandemic**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. Impact on the Educational Service Center’s future operating costs, revenues, and any recovery from emergency funding, either federal or State, cannot be estimated.

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**Preble County Educational Service Center**  
Schedule of Receipts, Disbursements and  
Changes in Fund Balance - Budget and Actual - Budget Basis  
General Fund  
For the Fiscal Year Ended June 30, 2020

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Receipts:</b>				
Intergovernmental	\$0	\$0	\$192,315	\$192,315
Interest	0	0	27,155	27,155
Tuition and Fees	0	0	4,453,080	4,453,080
Rent	0	0	30,000	30,000
Gifts and Donations	0	0	10,989	10,989
Charges for Services	0	0	136,047	136,047
Miscellaneous	0	0	88,954	88,954
<i>Total Receipts</i>	<u>0</u>	<u>0</u>	<u>4,938,540</u>	<u>4,938,540</u>
<b>Disbursements:</b>				
Current:				
Instruction:				
Regular	120,781	324,054	323,988	66
Special	1,913,087	2,001,935	1,786,052	215,883
Support Services:				
Pupils	1,453,685	1,511,910	1,227,665	284,245
Instructional Staff	133,164	133,164	129,869	3,295
Board of Education	23,637	23,673	19,097	4,576
Administration	443,017	443,017	430,461	12,556
Fiscal	243,028	328,927	319,418	9,509
Business	2,000	2,000	944	1,056
Operation and Maintenance of Plant	183,076	183,076	142,199	40,877
Pupil Transportation	514,427	514,095	472,923	41,172
Central	30,940	30,940	20,716	10,224
Operation of Non-Instructional Services	14,000	14,000	9,299	4,701
Extracurricular Activities	3,647	3,647	1,510	2,137
Debt Service:				
Principal	49,000	49,000	49,000	0
Interest and Fiscal Charges	47,630	47,630	46,792	838
<i>Total Disbursements</i>	<u>5,175,119</u>	<u>5,611,068</u>	<u>4,979,933</u>	<u>631,135</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(5,175,119)</u>	<u>(5,611,068)</u>	<u>(41,393)</u>	<u>5,569,675</u>
<b>Other Financing Uses:</b>				
Transfers Out	<u>(\$54)</u>	<u>(\$54)</u>	<u>0</u>	<u>\$54</u>
<i>Net Change in Fund Balance</i>			(41,393)	
<i>Fund Balance at Beginning of Year</i>			1,789,038	
<i>Prior Year Encumbrances Appropriated</i>			63,791	
<i>Fund Balance at End of Year</i>			<u>\$1,811,436</u>	

See Accompanying Notes to the Supplemental Information

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**Preble County Educational Service Center**

Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2020

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**Note 1 - Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The Board does not approve estimated resources. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

**Note 2 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The differences between the budgetary basis and the modified cash basis are receipt and disbursement adjustments that were made to record the financed purchase agreement on the modified cash basis. This represents amounts received and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements on the modified cash basis operating statement.

	<u>Net Change in Fund Balance</u>
	<u>General</u>
Modified Cash Basis	\$ (41,393)
Financed purchase receipt adjustment	(96,649)
Financed purchase disbursement adjustment	<u>96,649</u>
Budget Basis	<u>\$ (41,393)</u>

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**Preble County Educational Service Center**  
Statement of Net Position - Modified Cash Basis  
June 30, 2019

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,862,290
Non-Depreciable Capital Assets	67,956
Depreciable Capital Assets, Net	860,840
<i>Total Assets</i>	2,791,086
<b>Liabilities</b>	
Due Within One Year	49,000
Due In More Than One Year	845,000
<i>Total Liabilities</i>	894,000
<b>Net Position</b>	
Net Investment in Capital Assets	34,796
Restricted for Title II-A	9,461
Unrestricted	1,852,829
<i>Total Net Position</i>	\$1,897,086

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Activities - Modified Cash Basis  
For the Fiscal Year Ended June 30, 2019

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$358,266	\$289,282	\$84,890	\$15,906
Special	1,616,286	2,018,153	0	401,867
Support Services:				
Pupils	1,256,973	1,306,393	6,917	56,337
Instructional Staff	128,403	51,312	0	(77,091)
Board of Education	18,128	0	0	(18,128)
Administration	497,972	235,733	0	(262,239)
Fiscal	228,064	1,255	0	(226,809)
Business	1,588	0	0	(1,588)
Operation and Maintenance of Plant	195,565	54,438	0	(141,127)
Pupil Transportation	360,412	361,725	73,909	75,222
Central	31,212	5,226	1,800	(24,186)
Operation of Non-Instructional Services	12,904	13,008	0	104
Extracurricular Activities	2,011	7,234	0	5,223
Interest and Fiscal Charges	49,359	0	0	(49,359)
<b>Totals</b>	<b>\$4,757,143</b>	<b>\$4,343,759</b>	<b>\$167,516</b>	<b>(245,868)</b>
<b>General Receipts</b>				
Grants and Entitlements not Restricted to Specific Programs				151,996
Interest				40,896
Miscellaneous				56,973
<i>Total General Receipts</i>				<u>249,865</u>
<i>Change in Net Position</i>				3,997
<i>Net Position at Beginning of Year</i>				<u>1,893,089</u>
<i>Net Position at End of Year</i>				<u><u>\$1,897,086</u></u>

See Accompanying Notes to the Basic Financial Statements



**Preble County Educational Service Center**  
Statement of Assets and Fund Balances - Modified Cash Basis  
Governmental Funds  
June 30, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,852,776	\$9,461	\$1,862,237
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	53	0	53
<i>Total Assets</i>	<u>1,852,829</u>	<u>9,461</u>	<u>1,862,290</u>
<b>Fund Balances</b>			
Nonspendable	53	0	53
Restricted	0	9,461	9,461
Committed	23,328	0	23,328
Assigned	663,322	0	663,322
Unassigned	1,166,126	0	1,166,126
<i>Total Fund Balances</i>	<u><u>\$1,852,829</u></u>	<u><u>\$9,461</u></u>	<u><u>\$1,862,290</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Reconciliation of Total Governmental Fund Balances to  
Net Position of Governmental Activities - Modified Cash Basis  
June 30, 2019

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**Total Governmental Fund Balance** \$1,862,290

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

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported in the funds. These assets  
consist of:

Land	67,956
Buildings	1,421,609
Furniture, Fixtures, and Equipment	115,921
Vehicles	473,524
Accumulated Depreciation	<u>(1,150,214)</u>

Total Capital Assets 928,796

Capital leases are not due and payable in the current period  
and, therefore, are not reported in the funds. (894,000)

*Net Position of Governmental Activities* \$1,897,086

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Cash Receipts, Disbursements and Changes in Fund Balances  
Modified Cash Basis  
Governmental Funds  
For the Fiscal Year Ended June 30, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$225,905	\$93,607	\$319,512
Interest	40,896	0	40,896
Tuition and Fees	4,293,464	0	4,293,464
Rent	22,500	0	22,500
Charges for Services	27,795	0	27,795
Miscellaneous	56,813	160	56,973
<i>Total Receipts</i>	<u>4,667,373</u>	<u>93,767</u>	<u>4,761,140</u>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	265,061	85,038	350,099
Special	1,612,791	0	1,612,791
Support Services:			
Pupils	1,247,213	6,929	1,254,142
Instructional Staff	101,196	9,885	111,081
Board of Education	18,128	0	18,128
Administration	475,916	0	475,916
Fiscal	225,904	0	225,904
Business	1,588	0	1,588
Operation and Maintenance of Plant	193,017	0	193,017
Pupil Transportation	350,808	0	350,808
Central	29,412	1,800	31,212
Operation of Non-Instructional Services	11,923	0	11,923
Extracurricular Activities	2,011	0	2,011
Debt Service:			
Principal	48,000	0	48,000
Interest and Fiscal Charges	49,359	0	49,359
<i>Total Disbursements</i>	<u>4,632,327</u>	<u>103,652</u>	<u>4,735,979</u>
<i>Net Change in Fund Balances</i>	35,046	(9,885)	25,161
<i>Fund Balances at Beginning of Year</i>	<u>1,817,783</u>	<u>19,346</u>	<u>1,837,129</u>
<i>Fund Balances at End of Year</i>	<u><u>\$1,852,829</u></u>	<u><u>\$9,461</u></u>	<u><u>\$1,862,290</u></u>

See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
 Reconciliation of the Statement of Cash Receipts, Disbursements and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis  
 For the Fiscal Year Ended June 30, 2019

**Net Change in Fund Balances - Total Governmental Funds** \$25,161

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

Governmental funds report capital outlays as disbursements. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation disbursement. In the current period, these amounts are:

Capital Outlay	2,205	
Depreciation Disbursement	(69,428)	(67,223)

Excess of Capital Outlay over Depreciation (67,223)

The proceeds from the sale of capital assets are reported as receipts in the governmental funds. However, the cost of the capital assets are removed from the capital assets account in the statement of net position and offset against the proceeds from the sale of capital assets resulting in a loss on the disposal of capital assets in the statement of activities.

Loss on Disposal of Capital Assets	(1,941)
------------------------------------	---------

Repayment of long-term debt is reported as a disbursement in governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

48,000
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*Change in Net Position of Governmental Activities*

\$3,997
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See Accompanying Notes to the Basic Financial Statements

**Preble County Educational Service Center**  
Statement of Fiduciary Net Position - Modified Cash Basis  
Fiduciary Funds  
June 30, 2019

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	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
<b>Assets</b>		
Equity in Pooled Cash and Cash Equivalents	\$1,377	<u>\$60,079</u>
<b>Liabilities</b>		
Undistributed Monies	<u>0</u>	<u>\$60,079</u>
<b>Net Position</b>		
Held in Trust for Scholarships	<u>\$1,377</u>	

See Accompanying Notes to the Basic Financial Statements

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## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### **Note 1 - Description of the Educational Service Center and Reporting Entity**

The Preble County ESC (the “Educational Service Center”) is located in Eaton, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to area school districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently. The Educational Service Center operates under a locally-elected governing board, consisting of five members elected at-large for staggered four-year terms.

#### *Reporting Entity*

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Preble County Educational Service Center, this includes the general operations of the Educational Service Center.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Educational Service Center has no component units.

The Educational Service Center participates in three jointly governed organizations, two insurance purchasing pools, and one shared risk pools. These organizations are presented in Notes 12 and 13 to the basic financial statements. These organizations are:

#### Jointly Governed Organizations:

Southwest Ohio Computer Association

Southwestern Ohio Educational Purchasing Council

Preble County Professional Development Consortium

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### Insurance Purchasing Pool:

Southwestern Ohio Educational Purchasing Council Workers'  
Compensation Group Rating Plan

Southwestern Ohio Educational Purchasing Council Liability, Fleet and  
Property Program

### Shared Risk Pool:

Southwestern Ohio Educational Purchasing Cooperative Benefit  
Plan Trust

## **Note 2 - Summary of Significant Accounting Policies**

The financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America. Generally accepted accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the modified cash basis of accounting. The more significant of the Educational Service Center's accounting policies are described below.

### **Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements, which provide a more detailed level of financial information.

#### *Government-wide Financial Statements*

The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The government-wide financial statements usually distinguish between those activities of the Educational Service Center that are governmental and those that are considered business-type. The Educational Service Center, however, does not have any activities that are presented as business-type. Governmental activities generally are financed through intergovernmental receipts or other nonexchange transactions.

The Statement of Net Position presents the cash balance, capital assets, and debt of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities compares disbursements with program receipts for each function of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the program's goods or services, grants and contributions restricted to meeting the operational or capital requirements of a particular program, and receipts of interest earned on grants that are required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a modified cash basis or draws from the Educational Service Center's general receipts.



## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### *Fund Financial Statements*

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities into separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds, rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

### **Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center divides its funds into two categories: governmental and fiduciary.

#### *Governmental Funds*

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

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

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

#### *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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service Center's own programs. The Educational Service Center's only trust fund is a private purpose trust fund that accounts for a college scholarship program for students. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's agency funds account for monies held for the Preble County Professional Development Consortium, activities on behalf of student work programs, and for employee reimbursements of pretax medical premiums withheld from their pay.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### **Basis of Accounting**

The Educational Service Center's financial statements are prepared using the modified cash basis of accounting. Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned, and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Educational Service Center are described in the appropriate section in this note.

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

Modifications to report capital assets and long-term obligations involved recording capital assets and long-term obligations that resulted from cash transactions.

### **Cash and Cash Equivalents**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the financial statements.

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

During fiscal year 2019, the Educational Service Center's investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio 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 Educational Service Center measures their investment in STAROhio at the net asset value (NAV) per share provided by STAROhio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transactions to \$100 million per day, 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.

## **Preble County Educational Service Center**

### **Notes to the Basic Financial Statements**

**For the Fiscal Year Ended June 30, 2019**

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of investment earnings. Interest receipts credited to the General Fund during fiscal year 2019 were \$40,896, which includes \$1,508 assigned from other Educational Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

#### **Restricted Assets**

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

#### **Inventory and Prepaid Items**

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

#### **Capital Assets**

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. General capital assets generally result from disbursements in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported on the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of \$1,500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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

**Preble County Educational Service Center**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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<u>Description</u>	<u>Estimated Lives</u>
Buildings	25-80 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	10 years

**Accumulated Leave**

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

**Pensions/Other Postemployment Benefits (OPEB)**

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

**Long-Term Obligations**

Long-term obligations are reported in the government-wide financial statements. The Educational Service Center reported a liability for capital leases, which arose from cash transactions.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center 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 category includes amounts that cannot be spent because they are not in spendable form or they are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. Nonspendable fund balance for the Educational Service Center is unclaimed monies.

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

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by the highest level of formal action (resolution) of the Educational Service Center Board of Education. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board of Education 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 Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center Board of Education. The Treasurer has been given authority to assign amounts for these purposes by the Educational Service Center Board of Education. The Treasurer assigned fund balance to cover a gap between estimated revenue and appropriations in the 2020 appropriated budget.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

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

### **Net Position**

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes includes resources restricted for federal and State grants restricted to cash disbursement for specified purposes.

The Educational Service Center applies restricted resources when a cash disbursement is incurred for purposes for which both restricted and unrestricted net positions are available.

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### **Estimates**

The modified cash basis of accounting used by the Educational Service Center requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation disbursement); accordingly, actual results could differ from those estimates.

### **Note 3 - State and Local School District Funding**

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each city, local, and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's city, local, and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26.00 times the average daily membership of the Educational Service Center. This amount is then multiplied by a proration factor that is updated annually. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

### **Note 4 - Deposits and Investments**

Monies held by the Educational Service Center are classified by State statute into three categories.

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

## Preble County Educational Service Center

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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

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

Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

## Preble County Educational Service Center

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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6. No-load money market mutual funds consisting exclusively of obligations described in (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 (STAROhio); 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.

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 Educational Service Center, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian

#### *Investments*

As of June 30, 2019, the Educational Service Center's only investment was \$1,705,070 with STAROhio. The average maturity of STAROhio at June 30, 2019, was 53.3 days and is valued at net asset value per share provided by STAROhio.

#### *Interest Rate Risk*

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Educational Service Center's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the Educational Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. To date, no investments have been purchased with a life greater than five years. Repurchase agreements are limited to 30 days and the market value of the securities must exceed the principal value of the agreement by at least 2 percent and be marked to market daily.

#### *Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Standard and Poor's rated the Educational Service Center's investment in STAROhio AAAM. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

*Concentration of Credit Risk*

The Educational Service Center's investment policy places no limit on the amount it may invest in any one issuer.

**Note 5 - Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2019, was as follows:

	Balance at 6/30/2018	Additions	Deletions	Balance at 6/30/2019
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$67,956	\$0	\$0	\$67,956
Capital Assets Being Depreciated:				
Buildings	1,421,609	0	0	1,421,609
Furniture, Fixtures, and Equipment	119,424	2,205	(5,708)	115,921
Vehicles	473,524	0	0	473,524
Total Capital Assets Being Depreciated	<u>2,014,557</u>	<u>2,205</u>	<u>(5,708)</u>	<u>2,011,054</u>
Less Accumulated Depreciation:				
Buildings	(663,645)	(47,372)	0	(711,017)
Furniture, Fixtures, and Equipment	(29,821)	(12,452)	3,767	(38,506)
Vehicles	(391,087)	(9,604)	0	(400,691)
Total Accumulated Depreciation	<u>(1,084,553)</u>	<u>(69,428) *</u>	<u>3,767</u>	<u>(1,150,214)</u>
Total Capital Assets Being Depreciated, Net	<u>930,004</u>	<u>(67,223)</u>	<u>(1,941)</u>	<u>860,840</u>
Total Capital Assets, Net	<u>\$997,960</u>	<u>(\$67,223)</u>	<u>(\$1,941)</u>	<u>\$928,796</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$8,167
Special	3,495
Support Services:	
Pupils	2,831
Instructional Staff	17,322
Administration	22,320
Fiscal	2,160
Operation and Maintenance of Plant	2,548
Pupil Transportation	9,604
Operation of Non-Instructional Services	981
Total Depreciation	<u>\$69,428</u>

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**Note 6 - Risk Management**

**Property and Liability**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During fiscal year 2019, the Educational Service Center contracted with the Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program (Note 12) for general liability, property, and fleet insurance.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There have been no significant changes in coverage from the last fiscal year.

**Workers' Compensation**

For fiscal year 2019, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 12). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

**Medical Benefits**

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool for medical insurance (See Note 13). The Educational Service Center pays monthly premiums to the Trust for employee medical benefits. The Educational Service Center pays monthly premiums to the Trust for dental, vision and life insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**Note 7 – Defined Benefit Pension Plans**

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

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### **Net Pension Liability/Net OPEB Liability (Asset)**

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

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

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

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

The remainder of this note includes the required pension disclosures. See Note 8 for the required OPEB disclosures.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**Plan Description – School Employees Retirement System (SERS)**

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent 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 percent for plan members and 14 percent 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 percent. The remaining 0.5 percent was allocated to the Health Care Fund.

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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The Educational Service Center's contractually required contribution to SERS was \$144,485 for fiscal year 2019.

### **Plan Description – State Teachers Retirement System (STRS)**

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 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 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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 the fiscal year ended June 30, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. For fiscal year 2019, the contributions rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The Educational Service Center's contractually required contribution to STRS was \$220,656 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 Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.02849850%	0.01262116%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.03361920%</u>	<u>0.01355631%</u>	
Change in Proportionate Share	<u>0.00512070%</u>	<u>0.00093515%</u>	
Proportionate Share of the Net			
Pension Liability	\$1,925,434	\$2,980,728	\$4,906,162

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**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 as follows:

Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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
<b>Total</b>	<b><u>100.00%</u></b>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. 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 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, 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 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$2,712,119	\$1,925,434	\$1,265,851



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**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:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

Post-retirement mortality rates for healthy retirees are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent 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 percent of rates for males and 100 percent 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.

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:

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	\$4,352,961	\$2,980,728	\$1,819,319

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### **Note 8 – Defined Benefit OPEB Plans**

See note 7 for a description of the net OPEB liability

#### **Plan Description – School Employees Retirement System (SERS)**

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

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 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, 0.5 percent 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 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Educational Service Center's surcharge obligation was \$18,641.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$23,993 for fiscal year 2019.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**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](http://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 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

**Net OPEB Liability (Asset)**

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Educational Service Center’s proportion of the net OPEB liability (asset) was based on the Educational Service Center’s share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.02888250%	0.01262116%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.03353410%</u>	<u>0.01355631%</u>	
Change in Proportionate Share	<u>0.00465160%</u>	<u>0.00093515%</u>	
Proportionate Share of the Net			
OPEB Liability (Asset)	\$930,326	(\$217,837)	\$712,489

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**Actuarial Assumptions – SERS**

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

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

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

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

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent 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 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 7.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018, was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018, was 3.63 percent. 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 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024, and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, 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. 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.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates*** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) 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%)
Educational Service Center 's proportionate share of the net OPEB liability	\$1,128,878	\$930,326	\$773,111

	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%)
Educational Service Center's proportionate share of the net OPEB liability	\$750,603	\$930,326	\$1,168,313

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are as follows:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

## Preble County Educational Service Center

### Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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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 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent 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 percent of rates for males and 100 percent 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.

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent 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.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent 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 were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 7.

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent 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 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.



**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, 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 percent) or one percentage point higher (8.45 percent) 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.

	<u>1% Decrease</u>	<u>Current</u> <u>Discount Rate</u>	<u>1% Increase</u>
	(6.45%)	(7.45%)	(8.45%)
Educational Service Center's proportionate share of the net OPEB asset	(\$186,706)	(\$217,837)	(\$243,999)

  

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$242,523)	(\$217,837)	(\$192,765)

**Note 9 - Employee Benefits**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits is derived from the Educational Service Center's policy. Employees whose annual term of employment is 243 and 223 days earn five to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Employees whose annual term of employment is 243 and 223 days earn sick leave at a rate of one and one fourth days per month. Sick leave may be accumulated up to a maximum of 190 days. Upon retirement, payment is made for 25 percent of their accrued but unused sick leave credit to a maximum of 30 days.

**125 Plan**

The Educational Service Center provides its full-time employees, except those employed on an as-needed basis, an option to participate in an I.R.C. Section 125 plan. Money allocated to this plan must be used for expenses covered by that benefit during that benefit year. Any monies not used by the end of the plan year are forfeited to the Educational Service Center. Employees may elect to have plan benefit dollars applied to an unreimbursed medical plan. Participation is renewed annually with each benefit year beginning September 1 and ending August 31. This plan is administered by American Fidelity Assurance Company.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

**Note 10 - Capitalized Lease - Lessee Disclosure**

In fiscal year 2003, the Educational Service Center entered into a lease-purchase agreement for the construction of a new building. The Educational Service Center is leasing the project site from Columbus Regional Airport Authority. Columbus Regional Airport Authority will retain title to the project during the lease term. The Educational Service Center will make semi-annual lease payments to US Bank.

The agreement is recorded on the Statement of Net Position as “Due Within One Year” and “Due In More Than One Year.” Principal payments made during fiscal year 2019 totaled \$48,000 in the General Fund. The principal amount owed on the lease at fiscal year-end is \$894,000.

The asset acquired through capital lease is as follows:

	<u>Asset Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Building	<u>\$1,421,609</u>	<u>\$711,017</u>	<u>\$710,592</u>

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

<u>Fiscal Year Ending June 30,</u>	<u>Long-Term Obligations</u>
2020	\$95,808
2021	96,132
2022	96,287
2023	96,278
2024	96,099
2025-2029	478,402
2030-2032	283,926
Total minimum lease payments	1,242,932
Less: amount representing interest and charges	(348,932)
Present value of minimum lease payments	<u>\$894,000</u>

**Note 11 - Long-Term Obligations**

The only long-term obligation the Educational Service Center has is a capital lease. During fiscal year 2019, the Educational Service Center made \$48,000 in principal payments, which reduced the balance of the lease from \$942,000 at June 30, 2018, to \$894,000 at June 30, 2019. The amount due within one year is \$49,000. The capital lease will be paid from the General Fund.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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**Note 12 - Jointly Governed Organizations and Insurance Purchasing Pool**

**Jointly Governed Organizations**

*Southwest Ohio Computer Association*

The Educational Service Center is a participant in the Southwest Ohio Computer Association (SWOCA), which is a computer consortium. SWOCA is an association of public school districts and educational service centers within the boundaries of Butler, Hamilton, Montgomery, Warren, and Preble Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. The governing board of SWOCA consists of one representative from each entity plus one representative from the fiscal agent. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the board. The Educational Service Center paid SWOCA \$19,428 for services provided during the fiscal year. Financial information can be obtained from Donna Davis Norris, Executive Director of SWOCA, at 3611 Hamilton-Middletown Road, Hamilton, Ohio 45011.

*Southwestern Ohio Educational Purchasing Council*

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of over 100 school districts and educational service centers in 12 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services, including dental insurance, commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Council. Each member district has one voting representative. Title to any and all equipment, furniture and supplies purchased by the SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year's prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations.

Payments to SOEPC are made from the General Fund. During fiscal year 2019, the Educational Service Center did not make any payments to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, Ken Swink, who serves as Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

## Preble County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### *Preble County Professional Development Consortium*

The Educational Service Center is a participant in the Preble County Professional Development Consortium (PCPDC). PCPDC is an association of public school districts and educational service centers within the boundaries of Preble County. The organization was formed to improve staff development and instructional functions by making optimum use of public funds through cooperation of member public school districts. The governing board of PCPDC consists of one representative from each district plus one representative from the fiscal agent. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The Educational Service Center did not make any payments to PCPDC during the fiscal year. Financial information can be obtained from Kerry M. Borger, Treasurer, Preble County Educational Service Center, 597 Hillcrest Drive, Eaton, Ohio 45320 or email at [kerry.borger@preblecountyesc.org](mailto:kerry.borger@preblecountyesc.org).

On July 1, 2017, the PCPDC ceased operation; however, no formal action has been taken to dissolve the jointly governed organization.

### **Insurance Purchasing Pools**

#### *Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan*

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an eleven-member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center, and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

#### *Southwestern Ohio Educational Purchasing Council Liability, Fleet and Property Program*

The Educational Service Center participates in the Southwestern Ohio Educational Purchasing Council Liability, Fleet, and Property Program (LFP). The LFP's business and affairs are conducted by a six-member committee consisting of various LFP representatives that are elected by the General Assembly. The purpose of the Property, Fleet, and Liability Program of the SOEPC is to jointly provide or obtain casualty, property, employer liability, general liability, risk management, professional liability, group coverage, and other protections for participants.

**Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

**Note 13 - Shared Risk Pool**

*Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust*

The Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust) is a public entity shared risk pool consisting of approximately 130 school districts. The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwestern Ohio Educational Purchasing Cooperative and its participating members. Each participant decides which plans offered by the Trust will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Trust and payment of the monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

**Note 14 – Fund Balances**

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

Fund Balances	General Fund	Nonmajor Governmental Funds	Total
<b><i>Nonspendable</i></b>			
Unclaimed Monies	\$53	\$0	\$53
<b><i>Restricted for</i></b>			
Title II-A	0	9,461	9,461
<b><i>Committed to</i></b>			
Legal and Other Contracts	23,328	0	23,328
<b><i>Assigned to</i></b>			
Future Appropriations	622,859	0	622,859
Purchases on Order	40,463	0	40,463
<b><i>Total Assigned</i></b>	<b>663,322</b>	<b>0</b>	<b>663,322</b>
<b><i>Unassigned</i></b>	<b>1,166,126</b>	<b>0</b>	<b>1,166,126</b>
<b><i>Total Fund Balances</i></b>	<b>\$1,852,829</b>	<b>\$9,461</b>	<b>\$1,862,290</b>

## **Preble County Educational Service Center**

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

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### **Note 15 – Significant Commitments**

#### **Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods and services. Encumbrances accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year was \$63,791 for the General Fund only.

### **Note 16 - Contingencies**

#### **Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2019, if applicable, cannot be determined at this time.

#### **Litigation**

This Educational Service Center is not currently a party to any legal proceedings.

### **Note 17 - Compliance**

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

### **Note 18 – Subsequent Event**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. The impact on the Educational Service Center's future operating costs, revenues, and any recovery from emergency funding, either federal or State, cannot be estimated.

**Preble County Educational Service Center**  
Schedule of Receipts, Disbursements and  
Changes in Fund Balance - Budget and Actual - Budget 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>	
<b>Receipts</b>				
Intergovernmental	\$0	\$0	\$225,905	\$225,905
Interest	0	0	40,896	40,896
Tuition and Fees	0	0	4,293,464	4,293,464
Rent	0	0	22,500	22,500
Charges for Services	0	0	27,795	27,795
Miscellaneous	0	0	56,813	56,813
<i>Total Receipts</i>	<u>0</u>	<u>0</u>	<u>4,667,373</u>	<u>4,667,373</u>
<b>Disbursements</b>				
Current:				
Instruction:				
Regular	69,662	280,742	266,486	14,256
Special	1,742,573	1,651,549	1,617,662	33,887
Support Services:				
Pupils	1,199,976	1,268,830	1,252,738	16,092
Instructional Staff	10,115	115,611	101,813	13,798
Board of Education	23,163	21,295	20,348	947
Administration	476,133	492,259	479,561	12,698
Fiscal	248,288	240,951	240,137	814
Business	1,700	2,288	1,588	700
Operation and Maintenance of Plant	246,546	218,556	209,107	9,449
Pupil Transportation	362,062	370,179	361,986	8,193
Central	23,790	36,710	33,302	3,408
Operation of Non-Instructional Services	10,200	12,900	11,923	977
Extracurricular Activities	3,835	3,835	2,108	1,727
Debt Service:				
Principal	48,000	48,000	48,000	0
Interest and Fiscal Charges	49,000	49,400	49,359	41
<i>Total Disbursements</i>	<u>4,515,043</u>	<u>4,813,105</u>	<u>4,696,118</u>	<u>116,987</u>
<i>Excess of Receipts Under Disbursements</i>	<u>(4,515,043)</u>	<u>(4,813,105)</u>	<u>(28,745)</u>	<u>4,784,360</u>
<b>Other Financing Uses</b>				
Transfers Out	<u>(\$54)</u>	<u>(\$54)</u>	<u>0</u>	<u>\$54</u>
<i>Net Change in Fund Balance</i>			(28,745)	
<i>Fund Balance at Beginning of Year</i>			1,699,401	
<i>Prior Year Encumbrances Appropriated</i>			118,382	
<i>Fund Balance at End of Year</i>			<u>\$1,789,038</u>	

See Accompanying Notes to the Supplemental Information

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**Preble County Educational Service Center**

Notes to the Supplemental Information  
For the Fiscal Year Ended June 30, 2019

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**Note 1 - Budgetary Process**

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code, nor does the State Department of Education specify any budgetary guidelines to be followed.

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution, which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The Board does not approve estimated resources. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

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

**Note 2 - Budgetary Basis of Accounting**

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Receipts, Disbursements and Changes in Fund Balance – Budget and Actual – Budget Basis presented for the General Fund is prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the modified cash basis are outstanding year-end encumbrances, which are treated as cash disbursements (budgetary basis) rather than restricted, committed, or assigned fund balance (modified cash basis), and unrecorded cash, which represents amounts received and spent but not included on the budget basis operating statement. These amounts are included as receipts and disbursements on the modified cash basis operating statement.

The following table summarizes the adjustments necessary to reconcile the modified cash basis statements to the budgetary basis statement for the General Fund.

	<u>Net Change in Fund Balance</u>	<u>General</u>
Modified Cash Basis		\$ 35,046
Adjustment for Encumbrances		<u>(63,791)</u>
Budget Basis		<u>\$ (28,745)</u>

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One First National Plaza  
130 West Second Street, Suite 2040  
Dayton, Ohio 45402-1502  
(937) 285-6677 or (800) 443-9274  
WestRegion@ohioauditor.gov

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

Preble County Educational Service Center  
Preble County  
597 Hillcrest Drive  
Eaton, Ohio 45320

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the modified cash-basis financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Preble County Educational Service Center, Preble County, (the Educational Service Center) as of and for the fiscal years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated October 30, 2020, wherein we noted the Educational Service Center uses a special purpose framework other than generally accepted accounting principles. We also noted that the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center.

***Internal Control Over Financial Reporting***

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. 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 Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statements. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2020-001.

***Educational Service Center's Response to Finding***

The Educational Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the 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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Educational Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

October 30, 2020

PREBLE COUNTY EDUCATIONAL SERVICE CENTER  
PREBLE COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2020 AND 2019

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

FINDING NUMBER 2020-001

**Noncompliance**

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

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

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

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

**Official’s Response:**

The Preble County Educational Service Center uses an “Other Comprehensive Basis of Accounting” financial statement that conforms to the requirement of GASB 34. Using this method does not affect the opinion issued by our independent auditors; rather the basis used is explained in their report. Also, using “Other Comprehensive Basis of Accounting” financial statements does not affect the Educational Service Center’s credit rating. Therefore, the Preble County Educational Service Center does not believe a corrective action is needed.

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
JUNE 30, 2020 AND 2019**

Finding Number	Finding Summary	Status	Additional Information
2018-001	Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03 (B) requires the Educational Service Center (ESC) to prepare its annual financial report in accordance with generally accepted accounting principles.	Not Corrected. Repeated as Finding 2020-001.	The Preble County Educational Service Center uses an "Other Comprehensive Basis of Accounting" financial statement that conforms to the requirement of GASB 34. Using this method does not affect the opinion issued by our independent auditors; rather the basis used is explained in their report. Also, using "Other Comprehensive Basis of Accounting" financial statements does not affect the Educational Service Center's credit rating. Therefore, the Preble County Educational Service Center does not believe a corrective action is needed.

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# OHIO AUDITOR OF STATE KEITH FABER



**PREBLE COUNTY EDUCATIONAL SERVICE CENTER**

**PREBLE COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 12/8/2020**

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

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)