



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

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position – Cash Basis	5
Statement of Activities – Cash Basis	6
Fund Financial Statements:	
Statement of Cash Basis Assets and Fund Balances – Governmental Funds.....	7
Statement of Cash Receipts, Disbursements and Changes in Cash Basis Fund Balances - Governmental Funds	8
Notes to the Basic Financial Statements	9
Budgetary Comparison Schedules:	
General Fund	37
Title VI-B Fund	38
Notes to the Budgetary Comparison Schedules.....	39
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	41
Schedule of Findings.....	43
Prepared by Management:	
Summary Schedule of Prior Audit Findings	45

This page intentionally left blank.

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

Darke County Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Efficient • Effective • Transparent

Opinion

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

Accounting Basis

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

Emphasis of Matter

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

Other Matters

Supplementary Information

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

The budgetary comparison schedules for the General and Title VI-B Funds present 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 these schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these 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, these 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 November 10, 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.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive, flowing style.

Keith Faber
Auditor of State
Columbus, Ohio

November 10, 2020

This page intentionally left blank.

Darke County Educational Service Center

Statement of Net Position - Cash Basis

June 30, 2020

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,784,867</u>
<i>Total Assets</i>	<u><u>\$1,784,867</u></u>
Net Position	
Restricted for:	
Other Purposes	64,582
Unrestricted	<u>1,720,285</u>
<i>Total Net Position</i>	<u><u>\$1,784,867</u></u>

See accompanying notes to the basic financial statements

Darke County Educational Service Center

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2020*

	Program Cash Receipts			Net (Disbursements) Receipts and Changes in Net Position
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$63,017	\$71,340	\$0	\$8,323
Special	1,339,533	1,258,917	0	(80,616)
Support Services:				
Pupil	1,748,435	1,462,453	725,422	439,440
Instructional Staff	522,281	197,736	110,887	(213,658)
Board of Education	70,631	23,594	0	(47,037)
Administration	192,689	44,391	0	(148,298)
Fiscal	165,257	0	0	(165,257)
Operation and Maintenance of Plant	26,753	1,574	0	(25,179)
Central	17,574	17,329	0	(245)
Capital Outlay	35,680	0	0	(35,680)
<i>Total Governmental Activities</i>	4,181,850	3,077,334	836,309	(268,207)
General Receipts				
Grants and Entitlements Not Restricted to Specific Programs				
				187,515
Interest				
				22,648
Miscellaneous				
				183,242
<i>Total General Receipts</i>				
				393,405
Change in Net Position				
				125,198
<i>Net Position Beginning of Year</i>				
				1,659,669
<i>Net Position End of Year</i>				
				\$1,784,867

See accompanying notes to the basic financial statements

Darke County Educational Service Center
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2020

	General	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$687,446	\$892,321	\$205,100	\$1,784,867
Fund Balances				
Fund Balances:				
Restricted	0	0	64,582	64,582
Committed	0	892,321	140,518	1,032,839
Assigned	144,541	0	0	144,541
Unassigned	542,905	0	0	542,905
<i>Total Fund Balances</i>	<u>\$687,446</u>	<u>\$892,321</u>	<u>\$205,100</u>	<u>\$1,784,867</u>

See accompanying notes to the basic financial statements

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

	General	Title VI-B	Permanent Improvement	Other Governmental Funds	Total Governmental Funds
Receipts					
Intergovernmental	\$187,515	\$725,423	\$0	\$110,887	\$1,023,825
Interest	22,648	0	0	0	22,648
Tuition and Fees	378,769	0	0	71,340	450,109
Customer Sales and Services	2,763,617	0	0	4,250	2,767,867
Miscellaneous	42,599	0	0	0	42,599
<i>Total Receipts</i>	<u>3,395,148</u>	<u>725,423</u>	<u>0</u>	<u>186,477</u>	<u>4,307,048</u>
Disbursements					
Current:					
Instruction:					
Regular	0	0	0	63,017	63,017
Special	1,339,533	0	0	0	1,339,533
Support Services:					
Pupil	1,066,519	681,916	0	0	1,748,435
Instructional Staff	377,056	0	0	145,225	522,281
Board of Education	70,631	0	0	0	70,631
Administration	192,689	0	0	0	192,689
Fiscal	165,257	0	0	0	165,257
Operation and Maintenance of Plant	26,753	0	0	0	26,753
Central	17,574	0	0	0	17,574
Capital Outlay	0	0	35,680	0	35,680
<i>Total Disbursements</i>	<u>3,256,012</u>	<u>681,916</u>	<u>35,680</u>	<u>208,242</u>	<u>4,181,850</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	139,136	43,507	(35,680)	(21,765)	125,198
Other Financing Sources (Uses)					
Advances In	45,313	0	0	0	45,313
Advances Out	0	(43,507)	0	(1,806)	(45,313)
<i>Total Other Financing Sources (Uses)</i>	<u>45,313</u>	<u>(43,507)</u>	<u>0</u>	<u>(1,806)</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	184,449	0	(35,680)	(23,571)	125,198
<i>Fund Balances Beginning of Year</i>	<u>502,997</u>	<u>0</u>	<u>928,001</u>	<u>228,671</u>	<u>1,659,669</u>
<i>Fund Balances End of Year</i>	<u>\$687,446</u>	<u>\$0</u>	<u>\$892,321</u>	<u>\$205,100</u>	<u>\$1,784,867</u>

See accompanying notes to the basic financial statements

Darke County Educational Service Center

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

NOTE 1 – DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Darke County Educational Service Center (the “Educational Service Center”) is located in Greenville, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, and other services to the Mississinawa Valley, Ansonia, Arcanum-Butler, Franklin Monroe and Tri-Village Local School Districts, the Bradford Exempted Village School District, and the Greenville City School District. 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 Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center has 40 support staff employees, 12 certified teaching personnel and 3 administrative employees that provide services to the local, exempted village and city school districts.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic 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 Darke County Educational Service Center, this includes general operations, and student related activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable and for which a financial benefit or burden relationship exists. 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) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Educational Service Center. The Educational Service Center is financially accountable for an organization if an organization is fiscally dependent on the Educational Service Center and there is a potential for the organization to provide specific financial benefit to, or impose specific financial burdens on the Educational Service Center regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. Component units may also include organizations that do not otherwise meet the criteria for inclusion if it is determined that their exclusion would be misleading. The Educational Service Center has no component units.

The Educational Service Center participates in three jointly governed organizations, one insurance purchasing pool, and one shared risk pool. These organizations are discussed in Notes 8, 9, and 10 to the basic financial statements. These organizations are:

Jointly Governed Organizations:

- Southwest Ohio Computer Association
- Southwestern Ohio Educational Purchasing Council
- Miami Valley Career Technology Center

Insurance Purchasing Pool:

- Southwestern Ohio Educational Purchasing Council Workers’ Compensation Group Rating Plan

Shared Risk Pool:

- Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

Darke County Educational Service Center

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Although required by Ohio Administrative Code Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the Educational Service Center chooses to prepare its financial statements and notes in accordance with the cash basis of accounting.

The Educational Service Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved). Differences between disbursements reported in the fund and entity wide statements versus budgetary expenditures are due to encumbrances outstanding at the end of the fiscal year.

A. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center has only governmental funds.

The following are the Educational Service Center's major funds:

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

Title VI-B Fund – The Title VI-B Fund accounts for a grant to assist in providing an appropriate public education to all children with disabilities.

Permanent Improvement Fund – The Permanent Improvement Fund accounts for all transactions related to the acquiring, constructing, or improving of permanent improvements.

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

B. Basis of Presentation

The Educational Service Center's basic financial statements consist of a government-wide statement of net position and a statement of activities, and fund financial statements providing more detailed financial information.

Darke County Educational Service Center

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide Financial Statement of Activities: 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 primary government, except for fiduciary funds.

The statement of net position presents the cash balances of the governmental activities of the Educational Service Center at fiscal year end.

The government-wide statement of activities compares disbursements with program receipts for each function of the Educational Service Center's governmental activities. These disbursements are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program receipts include charges paid by the recipient of the program's goods or services and grants and contributions restricted to meeting the operational or capital requirements of 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 the cash basis or draws from the Educational Service Center's general receipts.

Fund Financial Statements: Fund financial statements report detailed information about the Educational Service Center. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

C. Cash, Cash Equivalents and Investments

The Educational Service Center pools cash from all funds for investment purposes. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements. During fiscal year 2020, the Educational Service Center's cash equivalents included negotiable certificates of deposits.

The Educational Service Center values negotiable certificates of deposit at cost.

Following Ohio statutes, the Board of Education specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2020 was \$22,648, including \$14,966 assigned from other Educational Service Center funds.

For presentation on the financial statements, investments of the Educational Service Center's cash management pool and investments with an original maturity of three months or less when purchased are deemed cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Purchases are not recorded as disbursements and sales are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or negative receipts (contra revenue), respectively.

D. Inventory and Prepaid Items

On the cash basis of accounting, inventories of supplies are reported as disbursements when purchased.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Capital Assets

Acquisitions of property, plant and equipment are recorded as disbursements when paid. The financial statements do not report these assets.

F. Compensated Absences

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Educational Service Center's cash basis of accounting.

G. Fund Balance

Fund Balance is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use. The Educational Service Center first applies restricted resources when a disbursement is incurred for purposes for which both restricted and unrestricted fund balance is available.

Fund Balance is reported as committed when the Board of Education of the Educational Service Center has placed constraints on the use of resources by resolution. Committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action (resolution) it employed to previously commit those amounts.

Fund Balance is reported as assigned when the Treasurer has encumbered resources not already committed to be used for a specific purpose.

Unassigned fund balance represents resources not restricted, committed or assigned to a specific purpose.

The Educational Service Center applies committed resources first and then assigned resources when a disbursement is incurred for purposes which committed, assigned and unassigned fund balance is available.

H. Net Position

Net position is reported as restricted when enabling legislation or creditors, grantors or laws or regulations of other governments have imposed limitations on its use.

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

I. Interfund Activity

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchasing funds. Nonexchange flows of cash from one fund to another are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular disbursements to the funds that initially paid for them are not presented on the financial statements.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Budgetary Data

The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. All funds are appropriated.

The Governing Board has elected the legal level of control for appropriations to be at the fund level for all funds. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center. Budgetary controls implemented by the Educational Service Center require that the appropriation resolution, by fund, be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriations totals at the levels of control established by the Board. Any revisions that alter the total of any fund appropriation must be approved by the Governing Board of the Educational Service Center. During the year, one supplemental appropriation measure was enacted.

The certificate of estimated resources may be amended during the year if the Educational Service Center Treasurer projects increases or decreases in receipts. The amounts reported as original budget in the budgetary comparative schedules reflect the amounts in the certificate when the original appropriations were adopted. The amounts reported as the final budget in the budgetary comparison schedules reflect the amounts in the amended certificate at the time the final appropriations were passed.

The Board may amend appropriations throughout the year. The amounts reported as the original budget reflect the first appropriation for that fund covering the entire fiscal year, including amounts automatically carried over from the prior year. The amounts reported as the final budget represent the final appropriations the Board passed during the year.

Formal budgetary integration is employed as a management control device during the year for all funds.

K. Pass-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. For fiscal year 2020, these funds included the Title VI-B Grant and the Early Childhood Grant.

L. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, 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.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Employer Contributions to Cost-Sharing Pension Plans

The Educational Service Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 6 and 7, the employer contributions include portions for pension benefits and for other postemployment benefits (OPEB).

NOTE 3 – 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.

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

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

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 obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

4. Bonds and other obligations of the State of Ohio, and with certain limitations bonds and other obligations of political subdivisions of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper (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. 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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$14,453 of the Educational Service Center's bank balance of \$1,388,397 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. The Educational Service Center's financial institution was approved for a reduced collateral rate of 50 percent through the Ohio Pooled Collateral System.

Darke County Educational Service Center

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

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Investments

As of June 30, 2020, the Educational Service Center had the following investments:

	<u>Measurement Value</u>	<u>Maturity</u>
Negotiable Certificate of Deposit	\$249,000	October 19, 2020
Negotiable Certificate of Deposit	\$247,000	July 19, 2021

Interest Rate Risk Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The Educational Service Center's investment policy addresses interest rate risk by requiring that the Education Service Center's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

Credit Risk The negotiable certificates of deposit are not rated. The Educational Service Center has no investment policy dealing with investment credit risk beyond the requirements in state statute.

Custodial Credit Risk For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The certificates of deposit are fully insured by FDIC. The Educational Service Center has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14 (M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a ticket, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

Concentration of Credit Risk The Educational Service Center places no limit on the amount it may invest in any one issuer. As of June 30, 2020, 50 percent of the Educational Service Center's investments were in a UBS Bank certificate of deposit and 50 percent were in a Morgan Stanley Bank certificate of deposit.

NOTE 4 – PRIMARY REVENUE SOURCES

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

State Foundation Distributions – Amounts Paid by the State.

This section has four parts. The first part is entitled Special Education and includes State funding for early childhood (preschool) and gifted units as well as extended service amounts for teachers involved in cooperative units. The extended service amounts received from the State will eventually be recovered by the State from the districts that are part of the cooperative agreement.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 4 –PRIMARY REVENUE SOURCES

The second part of this section is the per pupil amount. This amount is provided by the State. It is currently calculated by multiplying the ADM (as defined in Section 3317.11, R.C.) of the local districts within the limits of the Educational Service Center’s territory times \$26. The Educational Service Center also receives a per pupil amount for city and exempted village districts with which it had entered into a contract by January 1, 1997.

The third represents supervisory extended service amounts associated with co-op units. This amount will be recovered by the State from the districts that are parties to the cooperative agreement.

The final part of this section is the guarantee amount paid to the Educational Service Centers serving less than 10,000 students or to an Educational Service Center that otherwise would have experienced reduction in State funding because a local district has changed status to a city district.

The amounts paid by the State for co-op extended service and recovered from the participating districts are reported as customer sales and services. The other money distributed within this section is State money appropriately recorded as intergovernmental revenue.

State Foundation Distributions – Amounts Paid by the Locals.

This section has three parts. The first part is the amount paid by the districts for supervisors, the second part is the per pupil amount paid by the districts and the third part is the extended service amounts paid by the districts for units that are not being provided under a co-op agreement. Each school district’s per pupil amount is determined by multiplying the average daily membership of the district (the total number of students enrolled) by \$6.50 or \$35.50. These amounts are withheld by the State from the participating districts. These amounts are reported as charges for services.

State Foundation Distributions – Amounts Paid under Contract by Locals

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

NOTE 5 – RISK MANAGEMENT

A. Property and Liability

The Educational Service Center has obtained commercial insurance for the following risks:

Building and Contents – replacement cost	\$3,337,003
Automobile Liability	1,000,000
General Liability	1,000,000
Computer Liability	1,000,000
Legal Liability	1,000,000

Darke County Educational Service Center

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

NOTE 5 – RISK MANAGEMENT (continued)

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

B. 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 9). 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percent of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to those that can meet the GRP's selection criteria. The firm of Integrated Comp, Inc. provides administrative, cost control, and actuarial services to the GRP.

C. Medical and Other Insurance Benefits

For fiscal year 2020, the Educational Service Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a risk sharing pool (Note 10). The Educational Service Center pays monthly premiums to the Trust for employee medical, 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 6 – PENSION PLANS

The net pension liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the cash basis framework.

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

Net Pension Liability/Net OPEB Liability

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.

Darke County Educational Service Center

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

NOTE 6 – PENSION PLANS (continued)

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

Age and service requirements for retirement are as follows:

Darke County Educational Service Center

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

NOTE 6 – PENSION PLANS (continued)

	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 65 with 5 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year 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, 2020, the allocation to pension, death benefits, and Medicare B was 14.00 percent. None of the employer contribution was allocated to the Health Care Fund for fiscal year 2020.

The Educational Service Center’s contractually required contribution to SERS was \$68,792 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 retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS’ fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

Darke County Educational Service Center

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

NOTE 6 – PENSION PLANS (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation 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.

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

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. 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.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 6 – PENSION PLANS (continued)

The Educational Service Center’s contractually required contribution to STRS was \$272,507 for fiscal year 2020.

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 projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net Pension Liability Prior Measurement Date	0.01946490%	0.01847678%	
Proportion of the Net Pension Liability Current Measurement Date	0.01574380%	0.01770159%	
Change in Proportionate Share	-0.00372110%	-0.00077519%	
Proportionate Share of the Net Pension Liability	\$941,979	\$3,914,600	\$4,856,579

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.

Darke County Educational Service Center

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

NOTE 6 – PENSION PLANS (continued)

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

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.50 percent
Investment Rate of Return	7.50 percent net of investments 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% of male rates, and 110% of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

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

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

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

Discount Rate The 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.

Darke County Educational Service Center

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

NOTE 6 – PENSION PLANS (continued)

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 <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Educational Service Center's proportionate share of the net pension liability	\$1,320,050	\$941,979	\$624,920

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	12.50 % at age 20 to 2.50% at age 65
Investment rate of return	7.45%, net of investment expenses, including inflation
Discount Rate of return	7.45%
Payroll increases	3.00%
Cost-of-living adjustments	0%

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

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the 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:

Darke County Educational Service Center

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

NOTE 6 – PENSION PLANS (continued)

Asset Class	Target Allocation*	10-Yr Expected Real Rate of Return**
Domestic Equity	28%	7.35%
International Equity	23%	7.55%
Alternatives	17%	7.09%
Fixed Income	21%	3.00%
Real Estate	10%	6.00%
Liquidity Reserves	1%	2.25%
Total	100%	

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

**Ten-Year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25%, but does not include investment expenses. Over a 30-year period, STRS’s 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, 2019. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. 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	\$5,720,752	\$3,914,600	\$2,385,600

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2020, three of the Board of Education members have elected Social Security. The Board’s liability is 6.2 percent of wages paid.

Darke County Educational Service Center

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

NOTE 7 – DEFINED BENEFIT OPEB PLANS

The net OPEB liability (asset) is not reported on the face of the financial statements as a liability (asset) because of the use of the cash basis framework.

See Note 6 for a description of the 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 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 2020, none of the employer contribution was allocated 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 \$10,019.

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 \$10,019 for fiscal year 2020.

Darke County Educational Service Center

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

NOTE 7 – DEFINED BENEFIT OPEB PLANS (continued)

Plan Description - State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. 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.

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 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 (Asset)			
Prior Measurement Date	0.01970570%	0.01847678%	
Proportion of the Net OPEB Liability (Asset)			
Current Measurement Date	<u>0.01616660%</u>	<u>0.01770159%</u>	
Change in Proportionate Share	<u><u>-0.00353910%</u></u>	<u><u>-0.00077519%</u></u>	
Proportionate Share of the Net OPEB Liability (Asset)	\$406,556	(\$293,181)	\$113,375

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.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 7 – DEFINED BENEFIT OPEB PLANS (continued)

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, 2019, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments 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.

Darke County Educational Service Center

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

NOTE 7 – DEFINED BENEFIT OPEB PLANS (continued)

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

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

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 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	\$493,482	\$406,556	\$337,440

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 7 – DEFINED BENEFIT OPEB PLANS (continued)

	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	\$325,734	\$406,556	\$513,788

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 percent 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.

Darke County Educational Service Center

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

NOTE 7 – DEFINED BENEFIT OPEB PLANS (continued)

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

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

*Target weights will be phased in over a 24-month period concluding 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 actual rate of return, without net value added by management.

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 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 sufficient to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan assets 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.

Darke County Educational Service Center

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

NOTE 7 – DEFINED BENEFIT OPEB PLANS (continued)

	<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	(\$250,171)	(\$293,181)	(\$329,342)

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$332,454)	(\$293,181)	(\$245,081)

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.

NOTE 8 – JOINTLY GOVERNED ORGANIZATIONS

A. 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, Warren, Montgomery, Preble, and Darke 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 \$11,053 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.

Darke County Educational Service Center

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

NOTE 8 – JOINTLY GOVERNED ORGANIZATIONS (continued)

B. Southwestern Ohio Educational Purchasing Council

The Southwestern Ohio Educational Purchasing Council (SOEPC) is a purchasing cooperative made up of nearly 130 school districts in 18 counties. The purpose of the cooperative is to obtain prices for quality merchandise and services 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 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 have to pay any membership fee 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.

C. Miami Valley Career Technology Center

The Miami Valley Career Technology Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of representatives from seventeen of the twenty-six participating school districts' elected boards, which possess its own budgeting and taxing authority. One member is appointed from the following city, local, and/or exempted village school districts: Miamisburg, Milton-Union, Vandalia, Tipp City, Huber Heights, Trotwood-Madison, Carlisle, Eaton, Versailles, Northmont, and West Carrollton. Three members are appointed from the Montgomery County Educational Service Center and one is appointed from each of the following Educational Service Centers: Miami, Preble and Darke. The Educational Service Center did not make any payments to the Miami Valley Career Technology Center during fiscal year 2020. To obtain financial information, write to the Miami Valley Career Technology Center, Matt Huffman, who serves as Treasurer, at 6800 Hoke Road, Clayton, Ohio 45315.

NOTE 9 – GROUP INSURANCE PURCHASING POOL

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 committee consisting of various GRP representatives that are elected by the general assembly. Either the superintendent or treasurer from each participating school district serves on the general assembly. Each fiscal year, the participating School Districts pay an enrollment fee to the GRP to cover the costs of administering the program.

Darke County Educational Service Center

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

NOTE 10 – 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. The trust is organized as a Voluntary Employee Benefit Association under Section 501 (c) (9) Internal Revenue Code and provides medical, dental, and vision insurance benefits to the employees of the participants. The Trust is governed by the Southwest Ohio Educational Purchasing Council 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 the acceptance by the Trust and payment of monthly premiums. Financial information can be obtained from the Southwestern Ohio Educational Purchasing Cooperative, 303 Corporate Center Dr., Suite 208, Vandalia, OH 45377.

NOTE 11 – CONTINGENCIES

The Educational Service Center receives 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2020.

NOTE 12 – OTHER EMPLOYEE BENEFITS

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Program. The plan was created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plan permits deferral of compensation until future years. According to the plan, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

NOTE 13 – 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 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, deferred outflows/inflows, 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.

Darke County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

NOTE 14 – FUND BALANCE

Fund balance of the governmental funds is classified as non-spendable, restricted, committed, assigned, and/or unassigned based on the constraints imposed on the use of the resources.

The constraints placed on fund balance for the major governmental funds and all other governmental funds at June 30, 2020, were as follows:

Fund Balance	General	Permanent Improvement	Other Governmental Funds	Total
Restricted for:				
Professional Development			\$37,801	\$37,801
Drug Education			2,176	2,176
Education Improvement			6,300	6,300
School Helpline			7,079	7,079
Expanded Workforce			4,000	4,000
Preschool Grant			7	7
Ramco Grant			24	24
Technology			7,195	7,195
Total Restricted			64,582	64,582
Committed to:				
Daycare			140,518	140,518
Future Capital Requirements		\$892,321		892,321
Total Committed		892,321	140,518	1,032,839
Assigned for:				
Unpaid Obligations	\$134,176			134,176
Camp Link	746			746
Staff Development	4,543			4,543
DarkeNet	5,076			5,076
Total Assigned	144,541			144,541
Unassigned	542,905			542,905
Total Fund Balance	\$687,446	\$892,321	\$205,100	\$1,784,867

NOTE 15 – 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. The Educational Service Center's investment portfolio and the investments of the pension and other postemployment benefit plan in which the Educational Service Center participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, 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.

This page intentionally left blank.

Darke County Educational Service Center

Budgetary Comparison Schedule

General Fund

For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Receipts				
Intergovernmental	\$225,000	\$225,000	\$187,515	(\$37,485)
Interest	35,000	35,000	22,648	(12,352)
Tuition and Fees	370,000	370,000	378,769	8,769
Charges for Services	2,741,000	2,741,000	2,763,617	22,617
Miscellaneous	20,665	25,000	41,421	16,421
<i>Total Receipts</i>	<u>3,391,665</u>	<u>3,396,000</u>	<u>3,393,970</u>	<u>(2,030)</u>
Disbursements				
Current:				
Instruction:				
Special	1,436,939	1,436,940	1,353,629	83,311
Support Services:				
Pupil	1,148,712	1,198,712	1,138,765	59,947
Instructional Staff	395,739	395,394	383,139	12,255
Board of Education	95,711	95,711	88,599	7,112
Administration	225,458	225,458	194,726	30,732
Fiscal	104,145	104,145	165,902	(61,757)
Operation and Maintenance of Plant	42,028	42,027	38,765	3,262
Central	16,050	16,050	19,896	(3,846)
<i>Total Disbursements</i>	<u>3,464,782</u>	<u>3,514,437</u>	<u>3,383,421</u>	<u>131,016</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(73,117)	(118,437)	10,549	128,986
Other Financing Sources (Uses):				
Advances In	0	0	45,313	45,313
Proceeds from Sale of Capital Assets	125	0	0	0
Refund of Prior Year Expenditures	4,210	0	1,178	1,178
<i>Total Other Financing Sources (Uses)</i>	<u>4,335</u>	<u>0</u>	<u>46,491</u>	<u>46,491</u>
<i>Net Change in Fund Balance</i>	(68,782)	(118,437)	57,040	175,477
<i>Fund Balance Beginning of Year</i>	370,068	370,068	370,068	0
Prior Year Encumbrances Appropriated	<u>122,249</u>	<u>122,249</u>	<u>122,249</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$423,535</u>	<u>\$373,880</u>	<u>\$549,357</u>	<u>\$175,477</u>

See accompanying notes to the budgetary comparison schedules

Darke County Educational Service Center

Budgetary Comparison Schedule

Title VI-B Fund

For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Receipts				
Intergovernmental	\$814,137	\$824,623	\$725,423	(\$99,200)
Disbursements				
Current:				
Support Services:				
Pupil	866,761	781,116	681,916	99,200
<i>Total Disbursements</i>	<u>866,761</u>	<u>781,116</u>	<u>681,916</u>	<u>99,200</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	(52,624)	43,507	43,507	0
Other Financing Sources (Uses):				
Advances In	10,877	0	0	0
Advances Out	0	(43,507)	(43,507)	0
<i>Total Other Financing Sources (Uses)</i>	<u>10,877</u>	<u>(43,507)</u>	<u>(43,507)</u>	<u>0</u>
<i>Net Change of Fund Balance</i>	(41,747)	0	0	0
<i>Fund Balance Beginning of Year</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Balance (Deficit) End of Year</i>	<u>(\$41,747)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

See accompanying notes to the budgetary comparison schedules

Darke County Educational Service Center

Notes to the Budgetary Comparison Schedules

For the Fiscal Year Ended June 30, 2020

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 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 set annual limits on the expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Board also approves estimated resources.

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

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 budgetary comparison schedules presented for the General and Title VI-B Funds are prepared on the budgetary basis to provide a meaningful comparison of actual results with the budget. The differences between the budgetary basis and the cash basis are:

- (1) outstanding year-end encumbrances are treated as expenditures (budget) rather than as an assignment of fund balance (cash), and,
- (2) difference in perspective arises from some funds being included in the general fund (cash basis), but have separate legally adopted budgets (budget basis).

The following table summarizes the adjustments necessary to reconcile the cash basis statement to the budgetary basis schedule for the General Fund and the Title VI-B Fund.

	Net Changes in Fund Balance	
	<u>General Fund</u>	<u>Title VI-Fund</u>
Cash Basis	\$184,449	\$0
Adjustment for Encumbrances	(134,181)	0
Difference in Perspective	6,772	0
Budget Basis	<u>\$57,040</u>	<u>\$0</u>

This page intentionally left blank.

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 ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Darke County Educational Service Center
Darke County
5279 Education Drive
Greenville, Ohio 45331

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Darke County Educational Service Center, Darke County, (the Educational Service Center) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated November 10, 2020, wherein we noted the Educational Service Center uses a special purpose framework other than generally accepted accounting principles. We also noted the financial impact of COVID-19 and the continuing emergency measures will 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 statement. 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

November 10, 2020

**DARKE COUNTY EDUCATIONAL SERVICE CENTER
DARKE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2020**

FINDING 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.

Officials’ Response:

The Darke County Educational Service Center uses “Other Comprehensive Basis of Accounting” financial statements that conform 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.

This page intentionally left blank.



DARKE COUNTY

Educational Service Center

Michael E. Gray, Superintendent

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2020

Finding Number	Finding Summary	Status	Additional Information
2019-001	Ohio Rev. Code § 117.38 Ohio Admin. Code § 117-2-03(B) – Failure to File GAAP Report	Not Corrected	The Darke County Educational Service Center uses “Other Comprehensive Basis of Accounting” financial statements that conform 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 Darke County Educational Service Center does not believe a corrective action is needed.

Collaboration ■ Innovation ■ Education For All

It is the mission of the Darke County Educational Service Center to provide quality service to our clients by working collaboratively and providing leadership to our community of learners in their pursuit of excellence

5279 Education Drive • Greenville, OH 45331-9761 • Voice (937) 548-4915 • Fax: (937) 548-8920 • www.darkeesc.org

This page intentionally left blank.

OHIO AUDITOR OF STATE KEITH FABER



DARKE COUNTY EDUCATIONAL SERVICE CENTER

DARKE 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 12/15/2020

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