

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

SINGLE AUDIT REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2021**

James G. Zupka, CPA, Inc.
Certified Public Accountants

OHIO AUDITOR OF STATE
KEITH FABER



88 East Broad Street
Columbus, Ohio 43215
IPAReport@ohioauditor.gov
(800) 282-0370

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

We have reviewed the *Independent Auditor's Report* of the Educational Service Center of the Western Reserve, Lake County, prepared by James G. Zupka, CPA, Inc., for the audit period July 1, 2020 through June 30, 2021. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Keith Faber
Auditor of State
Columbus, Ohio

February 11, 2022

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LAKE COUNTY, OHIO
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Members of the Governing Board
Educational Service Center of the Western
Reserve
Concord Township, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve as of June 30, 2021, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18 to the basic financial statements, the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. As discussed in Note 19 to the basic financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center. As discussed in Note 20 to the basic financial statements, the school foundation aid received from the State of Ohio will be funded through the direct funding model. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2021, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 29, 2021

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
(Unaudited)

The discussion and analysis of the Educational Service Center of the Western Reserve (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2021. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2021 are as follows:

- General revenues accounted for \$6,068,380 in revenue or 29% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$15,142,468 or 71% of total revenues of \$21,210,848.
- The Center had \$19,855,289 in expenses related to governmental activities; \$15,142,468 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$6,068,380 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2021?" The Government-wide Financial Statements answers this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
(Unaudited)

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

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

Fund Financial Statements

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

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

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

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

The Center as a Whole

As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for the fiscal year ended June 30, 2021.

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Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
(Unaudited)

Table 1
Net Position

	Governmental Activities	
	2021	2020-Restated
Assets:		
Current and Other Assets	\$8,882,745	\$9,000,719
Net OPEB Asset	1,185,457	1,292,820
Capital Assets	<u>104,492</u>	<u>130,215</u>
Total Assets	<u>10,172,694</u>	<u>10,423,754</u>
Deferred Outflows of Resources:		
Pension	3,727,703	3,991,102
OPEB	<u>709,925</u>	<u>513,954</u>
Total Deferred Outflows of Resources	<u>4,437,628</u>	<u>4,505,056</u>
Liabilities:		
Other Liabilities	1,363,584	1,016,981
Long-Term Liabilities	<u>27,000,815</u>	<u>28,884,525</u>
Total Liabilities	<u>28,364,399</u>	<u>29,901,506</u>
Deferred Inflows of Resources:		
Property Taxes	4,641,797	4,492,791
Pension	5,889,593	6,545,913
OPEB	<u>3,931,423</u>	<u>3,567,643</u>
Total Deferred Inflows of Resources	<u>14,462,813</u>	<u>14,606,347</u>
Net Position:		
Net Investment in Capital Assets	104,492	130,215
Restricted	986,558	1,095,934
Unrestricted	<u>(29,307,940)</u>	<u>(30,798,598)</u>
Total Net Position	<u><u>(\$28,216,890)</u></u>	<u><u>(\$29,572,449)</u></u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2021, the Center's net position was (\$28,216,890).

A portion of the Center's net position, \$986,558 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Table 2 shows the changes in net position for 2021. Since this is the first full year of operations for the Center no comparative with prior year will be shown.

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
(Unaudited)

Table 2
Changes in Net Position

	Governmental Activities
	2021
Revenues:	
Program Revenues	
Charges for Services and Sales	\$12,407,988
Operating Grants and Contributions	2,734,480
General Revenues:	
Property Taxes	5,157,536
Grants and Entitlements	446,563
Other	464,281
Total Revenues	<u>21,210,848</u>
Expenses:	
Instruction	5,099,398
Support Services:	
Pupil and Instructional Staff	5,751,832
School Administrative, General	
Administration, Fiscal and Business	8,137,000
Operations and Maintenance	292,895
Pupil Transportation	184,370
Central	151,115
Operation of Non-Instructional Services	209,138
Extracurricular Activities	29,541
Total Program Expenses	<u>19,855,289</u>
Change in Net Position	1,355,559
Net Position - Beginning of Period, Restated	<u>(29,572,449)</u>
Net Position - End of Period	<u><u>(\$28,216,890)</u></u>

Governmental Activities

The Center revenues are mainly from charges for services and sales, and property taxes levied for special revenue purposes comprising 83% of the Center's revenues for governmental activities.

Instruction comprises 26% of governmental program expenses. Support services were 73% of governmental program cash expenses. The remaining program expenses were 1%.

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

Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by charges for services and sales. Since this is the first full year of operations for the Center no comparative with prior year will be shown.

Educational Service Center of the Western Reserve, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
(Unaudited)

Table 3
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2021</u>	<u>2021</u>
Instruction	\$5,099,398	\$6,485,016
Support Services:		
Pupil and Instructional Staff	5,751,832	(3,664,312)
School Administrative, General		
Administration, Fiscal and Business	8,137,000	(6,884,148)
Operations and Maintenance	292,895	(253,297)
Pupil Transportation	184,370	(152,614)
Central	151,115	(51,067)
Operation of Non-Instructional Services	209,138	(180,369)
Extracurricular Activities	29,541	(12,030)
Total Expenses	<u>\$19,855,289</u>	<u>(\$4,712,821)</u>

The Center’s Funds

The Center has two major governmental funds: the General Fund and the Lake County School Financing District Fund.

General Fund: Fund balance at June 30, 2021 was \$1,768,417. The net change in fund balance was (\$544,955).

Lake County School Financing District Fund: Fund balance at June 30, 2021 was \$335,818. The net change in fund balance was (\$174,879).

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2021 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations except for the Lake County School Financing District fund, which is required to be presented since the fund collects property tax revenue.

Capital Assets and Debt Administration

Capital Assets

The Center had equipment as capital assets of \$104,492 as of June 30, 2021. See Note 6 to the Basic Financial Statements for further details on the Center’s capital assets.

Debt

At June 30, 2021, the Center had no debt obligations outstanding.

Educational Service Center of the Western Reserve, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2021
(Unaudited)

Contacting the Center's Financial Management

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

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Educational Service Center of the Western Reserve, Ohio
Statement of Net Position
June 30, 2021

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$3,087,254
Restricted Cash and Investments	6,953
Receivables (Net):	
Taxes	5,247,166
Accounts	187,610
Intergovernmental	352,332
Prepays	1,430
Net OPEB Asset	1,185,457
Depreciable Capital Assets, Net	<u>104,492</u>
Total Assets	<u>10,172,694</u>
Deferred Outflows of Resources:	
Pension	3,727,703
OPEB	<u>709,925</u>
Total Deferred Outflows of Resources	<u>4,437,628</u>
Liabilities:	
Accounts Payable	6,949
Accrued Wages and Benefits	1,356,635
Long-Term Liabilities:	
Due Within One Year	140,699
Due In More Than One Year	
Net Pension Liability	24,099,309
Net OPEB Liability	2,606,502
Other Amounts	<u>154,305</u>
Total Liabilities	<u>28,364,399</u>
Deferred Inflows of Resources:	
Property Taxes	4,641,797
Pension	5,889,593
OPEB	<u>3,931,423</u>
Total Deferred Inflows of Resources	<u>14,462,813</u>
Net Position:	
Net Investment in Capital Assets	104,492
Restricted for:	
State Grants	136,155
Federal Grants	206,155
Lake County School Financing District	605,369
Other Purposes	38,879
Unrestricted	<u>(29,307,940)</u>
Total Net Position	<u><u>(\$28,216,890)</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2021

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$665,600	\$711,328	\$67,554	\$113,282
Special	4,000,709	9,317,631	209,703	5,526,625
Vocational	353,311	1,256,062	0	902,751
Adult/Continuing	79,778	9,433	12,703	(57,642)
Support Services:				
Pupil	4,195,852	568,390	103,089	(3,524,373)
Instructional Staff	1,555,980	51,182	1,364,859	(139,939)
General Administration	5,862,173	4,830	543,788	(5,313,555)
School Administration	1,650,385	241,082	299,978	(1,109,325)
Fiscal	585,697	76,916	76,580	(432,201)
Business	38,745	3,066	6,612	(29,067)
Operations and Maintenance	292,895	39,598	0	(253,297)
Pupil Transportation	184,370	27,372	4,384	(152,614)
Central	151,115	54,818	45,230	(51,067)
Operation of Non-Instructional Services	209,138	28,769	0	(180,369)
Extracurricular Activities	29,541	17,511	0	(12,030)
Totals	\$19,855,289	\$12,407,988	\$2,734,480	(4,712,821)
		General Revenues:		
		Property Taxes Levied for:		
		Special Revenue Purposes		5,157,536
		Grants and Entitlements, Not Restricted		446,563
		Other Revenues		464,281
		Total General Revenues		6,068,380
		Change in Net Position		1,355,559
		Net Position - Beginning of Year, Restated		(29,572,449)
		Net Position - End of Year		(\$28,216,890)

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Balance Sheet
Governmental Funds
June 30, 2021

	General	Lake County School Financing District	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,867,564	\$0	\$153,482	\$3,021,046
Restricted Cash and Investments	6,953	0	0	6,953
Receivables (Net):				
Taxes	0	5,247,166	0	5,247,166
Accounts	187,610	0	0	187,610
Intergovernmental	0	0	352,332	352,332
Interfund	29,920	0	0	29,920
Prepays	1,269	0	161	1,430
Total Assets	\$3,093,316	\$5,247,166	\$505,975	\$8,846,457
Liabilities:				
Accounts Payable	\$4,449	\$0	\$2,500	\$6,949
Accrued Wages and Benefits	1,258,132	0	98,503	1,356,635
Compensated Absences	62,318	0	0	62,318
Interfund Payable	0	0	29,920	29,920
Total Liabilities	1,324,899	0	130,923	1,455,822
Deferred Inflows of Resources:				
Property Taxes	0	4,911,348	0	4,911,348
Grants and Other Taxes	0	0	219,451	219,451
Total Deferred Inflows of Resources	0	4,911,348	219,451	5,130,799
Fund Balances:				
Nonspendable	8,222	0	161	8,383
Restricted	0	335,818	175,516	511,334
Assigned	71,631	0	0	71,631
Unassigned	1,688,564	0	(20,076)	1,668,488
Total Fund Balances	1,768,417	335,818	155,601	2,259,836
Total Liabilities, Deferred Inflows and Fund Balances	\$3,093,316	\$5,247,166	\$505,975	\$8,846,457

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2021

Total Governmental Fund Balance		\$2,259,836
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		104,492
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	269,551	
Intergovernmental	<u>219,451</u>	
		489,002
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position		66,208
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(232,686)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	3,727,703	
Deferred inflows of resources related to pensions	(5,889,593)	
Deferred outflows of resources related to OPEB	709,925	
Deferred inflows of resources related to OPEB	<u>(3,931,423)</u>	
		(5,383,388)
Long-term liabilities and net OPEB assets are not available to pay for current period expenditures and are not due and payable in the current period and, therefore, are not reported in the funds.		
Net OPEB Asset	1,185,457	
Net Pension Liability	(24,099,309)	
Net OPEB Liability	<u>(2,606,502)</u>	
		<u>(25,520,354)</u>
Net Position of Governmental Activities		<u><u>(\$28,216,890)</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2021

	General	Lake County School Financing District	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$0	\$5,111,341	\$0	\$5,111,341
Tuition and Fees	1,145,248	0	0	1,145,248
Intergovernmental	446,563	543,788	2,050,331	3,040,682
Extracurricular Activities	10,921	0	3,695	14,616
Contract Services	11,295,892	0	0	11,295,892
Other Revenues	380,257	0	36,255	416,512
Total Revenues	13,278,881	5,655,129	2,090,281	21,024,291
Expenditures:				
Current:				
Instruction:				
Regular	727,316	0	69,691	797,007
Special	4,383,853	0	163,884	4,547,737
Vocational	400,586	0	0	400,586
Adult/Continuing	70,066	0	17,718	87,784
Support Services:				
Pupil	4,632,416	0	138,229	4,770,645
Instructional Staff	352,176	0	1,435,047	1,787,223
General Administration	35,881	5,830,008	0	5,865,889
School Administration	1,710,591	0	282,792	1,993,383
Fiscal	584,563	0	74,540	659,103
Business	29,639	0	6,403	36,042
Operations and Maintenance	300,198	0	0	300,198
Pupil Transportation	208,280	0	4,240	212,520
Central	132,252	0	44,873	177,125
Operation of Non-Instructional Services	234,642	0	0	234,642
Extracurricular Activities	21,377	0	8,357	29,734
Total Expenditures	13,823,836	5,830,008	2,245,774	21,899,618
Net Change in Fund Balance	(544,955)	(174,879)	(155,493)	(875,327)
Fund Balance - Beginning of Year, Restated	2,313,372	510,697	311,094	3,135,163
Fund Balance - End of Year	<u>\$1,768,417</u>	<u>\$335,818</u>	<u>\$155,601</u>	<u>\$2,259,836</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2021

Net Change in Fund Balance - Total Governmental Funds (\$875,327)

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

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

Depreciation Expense (25,723)

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

Pension Contributions	1,512,400	
Pension Expense	(31,188)	
OPEB Contributions	64,934	
OPEB Expense	<u>409,891</u>	
		1,956,037

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

Delinquent Property Taxes	46,195	
Intergovernmental	<u>140,362</u>	
		186,557

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

Compensated Absences 75,762

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

Change in Net Position - Internal Service Funds 38,253

Change in Net Position of Governmental Activities \$1,355,559

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2021

	<u>Governmental Activities Internal Service Fund</u>
Current Assets:	
Equity in Pooled Cash and Investments	<u>\$66,208</u>
Total Assets	<u>66,208</u>
Net Position:	
Unrestricted	<u>66,208</u>
Total Net Position	<u>\$66,208</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2021

	Governmental Activities Internal Service Fund
Operating Revenues:	
Charges for Services	\$2,709,570
Other Revenues	5,857
Total Operating Revenues	<u>2,715,427</u>
Operating Expenses:	
Personal Services	<u>2,677,174</u>
Total Operating Expenses	<u>2,677,174</u>
Change in Operating Income	<u>38,253</u>
Net Position - Beginning of Year	<u>27,955</u>
Net Position - End of Year	<u><u>\$66,208</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2021

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$2,715,427
Cash Payments to Employees	<u>(2,677,221)</u>
Net Cash Provided (Used) by Operating Activities	<u>38,206</u>
Cash Flows from Noncapital Financing Activities:	
Advances to Other Funds	<u>(54,450)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(54,450)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(16,244)
Cash and Cash Equivalents - Beginning of Period	<u>82,452</u>
Cash and Cash Equivalents - End of Period	<u>\$66,208</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	\$38,253
Changes in Assets & Liabilities:	
Increase (Decrease) in Payables	<u>(47)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$38,206</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Fiduciary Net Position
Fiduciary Fund
June 30, 2021

	<u>Custodial Funds</u>
Assets:	
Equity in Pooled Cash and Investments	\$2,420,364
Receivables (Net):	
Accounts	<u>269,652</u>
Total Assets	<u>2,690,016</u>
Liabilities:	
Accounts Payable	484
Accrued Liabilities	<u>151,392</u>
Total Liabilities	<u>151,876</u>
Net Position:	
Restricted for Individuals, Organizations, and Other Governmer	<u>2,538,140</u>
Total Net Position	<u>\$2,538,140</u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Statement of Changes in Fiduciary Net Position
Fiduciary Fund
For the Fiscal Year Ended June 30, 2021

	<u>Custodial Funds</u>
Additions:	
Collections for iSTEM Geauga Early College High School	\$1,487,221
Collections for Lake Geauga Computer Association	<u>2,644,632</u>
Total Additions	<u>4,131,853</u>
Deductions:	
Distributions to iSTEM Geauga Early College High School	1,682,114
Distributions to Lake Geauga Computer Association	<u>2,945,378</u>
Total Deductions	<u>4,627,492</u>
Change in Net Position	(495,639)
Net Position - Beginning of Year, Restated	<u>3,033,779</u>
Net Position - End of Year	<u><u>\$2,538,140</u></u>

See accompanying notes to the basic financial statements.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Note 1 - Description of the Center and Reporting Entity

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

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

Financial Reporting Entity

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

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

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

Jointly Governed Organizations:

Lake Geauga Computer Association
Ohio Schools Council Association

Claims Servicing Pool:

Lake County Schools Council of Governments' Health Care Benefits Program

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation GRRP

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

Note 2 - Summary of Significant Accounting Policies

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Fund Accounting

The Center uses funds to maintain its financial records during the six months ended June 30, 2021. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain functions or activities. A fund is a fiscal and accounting entity with a self-balancing set of accounts. The Center classifies each fund as either governmental, proprietary or fiduciary.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Governmental Funds

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

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

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

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

Proprietary Fund

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

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

Fiduciary Funds

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Basis of Accounting

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

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Center, deferred outflows of resources includes pension and other postemployment benefits. These are reported on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 8 and 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources may include property taxes, OPEB, grants and other taxes, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of six month ended June, 30 2021, but which were levied to finance year 2022 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

statements. Grants and other taxes have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. For more pension and OPEB related information, see Notes 8 and 9.

Expenses/Expenditures

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

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

Equity in Pooled Cash and Investments

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

As of June 30, 2021, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

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

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transaction to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue as of June 30, 2021, amounted to \$0 in the General fund.

Capital Assets

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the date received. The Center maintains a capitalization threshold of \$5,000 or more (policy 7455). In April 2020 the Center purchased the Hale building located at 56 Hale Road Painesville, Ohio from the Riverside School District. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

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

Pensions/Other Postemployment Benefits (OPEB)

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

Compensated Absences

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

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

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds and estimated on the Center's past experience of making termination payments.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service depending on length of service

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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

Employer Contributions to Cost-Sharing Pension Plans

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

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$986,558 in restricted net position, none were restricted by enabling legislation.

Fund Balance

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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

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

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

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

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

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

Interfund Activity

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

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

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

Operating Revenues and Expenses

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

Budgetary Process

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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

Estimates

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

Restricted Assets

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

Note 3 - Equity in Pooled Cash and Investments

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

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

Inactive Monies – Those monies not required for use within the current five year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met.
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2021, \$1,014,782 of the Center's bank balance of \$1,528,512 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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

Investments

As of June 30, 2021, the Center had the following investments:

	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
STAR Ohio	\$4,060,711	N/A	0.15

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the Center’s recurring fair value measurements as of June 30, 2021. STAR Ohio is reported at its share price (Net Asset value per share).

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

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

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

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

Note 4 - Lake County School Financing District

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

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

Note 5 – Receivables

Receivables at June 30, 2021, consisted of taxes, accounts, intergovernmental, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$542,595	\$0	\$0	\$542,595
Totals at Historical Cost	542,595	0	0	542,595
Less Accumulated Depreciation:				
Equipment	412,380	25,723	0	438,103
Total Accumulated Depreciation	412,380	25,723	0	438,103
Governmental Activities Capital Assets, Net	<u>\$130,215</u>	<u>(\$25,723)</u>	<u>\$0</u>	<u>\$104,492</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$725
Special	712
Other Instruction	317
Support Services:	
Pupil	1,341
Instructional Staff	1,598
School Administration	5,110
Business	228
Pupil Transportation	14,035
Central	1,657
Total Depreciation Expense	<u>\$25,723</u>

Note 7 - Long-Term Liabilities

Long-term liabilities activity for the six months ended June 30, 2021:

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	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Compensated Absences	\$340,426	\$82,571	\$127,993	\$295,004	\$140,699
Net Pension Liability:					
STRS	17,261,956	0	941,112	16,320,844	0
SERS	7,925,643	0	147,178	7,778,465	0
Subtotal Net Pension Liability	25,187,599	0	1,088,290	24,099,309	0
Net OPEB Liability:					
SERS	3,356,500	0	749,998	2,606,502	0
Subtotal Net OPEB Liability	3,356,500	0	749,998	2,606,502	0
Total Long-Term Obligations	\$28,884,525	\$82,571	\$1,966,281	\$27,000,815	\$140,699

Compensated Absences will be paid from the fund from which the employee is paid.

Note 8 - Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability (Asset)

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

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

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

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

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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 9 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

Plan Description

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

Age and service requirements for retirement are as follows:

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

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

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on years of service; 2.2 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.

Changes in Benefits between Measurement Date and the Fiscal Year End

In September 2020, the Board of Trustees approved a 0.5 percent cost-of-living adjustment (COLA) for eligible retirees and beneficiaries in 2021. The effects of these changes are unknown.

Funding Policy

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Plan members are required to contribute 10 percent of their annual covered salary and the 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, 2021, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2021, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Center's contractually required contribution to SERS was \$523,317 for fiscal year 2021. Of this amount \$17,073 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 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. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

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

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

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

Funding Policy

Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2021 employer and employee contribution rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2021, the full employer contribution was allocated to pension.

The Center's contractually required contribution to STRS was \$989,083 for fiscal year 2021. Of this amount \$111,502 is reported as accrued wages and benefits.

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

The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$7,778,465	\$16,320,844	\$24,099,309
Proportion of the Net Pension Liability:			
Current Measurement Date	0.11760230%	0.06745142%	
Prior Measurement Date	<u>0.13246550%</u>	<u>0.07805754%</u>	
Change in Proportionate Share	-0.01486320%	-0.01060612%	
Pension Expense	\$335,710	(\$304,522)	\$31,188

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At June 30 2021, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$15,109	\$36,620	\$51,729
Changes of assumptions	0	876,115	876,115
Net difference between projected and actual earnings on pension plan investments	493,775	793,684	1,287,459
Changes in employer proportionate share of net pension liability	0	0	0
Contributions subsequent to the measurement date	523,317	989,083	1,512,400
Total Deferred Outflows of Resources	<u>\$1,032,201</u>	<u>\$2,695,502</u>	<u>\$3,727,703</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$0	\$104,361	\$104,361
Changes in employer proportionate share of net pension liability	592,216	5,193,016	5,785,232
Total Deferred Inflows of Resources	<u>\$592,216</u>	<u>\$5,297,377</u>	<u>\$5,889,593</u>

\$1,512,400 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2022	(\$392,701)	(\$1,560,390)	(\$1,953,091)
2023	(51,041)	(1,411,822)	(1,462,863)
2024	205,816	(534,125)	(328,309)
2025	154,594	(84,621)	69,973
2026	0	0	0
Total	<u>(\$83,332)</u>	<u>(\$3,590,958)</u>	<u>(\$3,674,290)</u>

Actuarial Assumptions - SERS

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

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

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incorporate the potential effects of legal or contractual funding limitations.

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2020, are presented below:

Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. Mortality among service retired members, and beneficiaries were based upon the RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120 percent of male rates, and 110 percent of female rates. Mortality among disabled members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement. The most recent experience study was completed for the five year period ended June 30, 2015.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	1.85%
US Stocks	22.50%	5.75%
Non-US Stocks	22.50%	6.50%
Fixed Income	19.00%	2.85%
Private Equity	12.00%	7.60%
Real Assets	17.00%	6.60%
Multi-Asset Strategies	5.00%	6.65%
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.

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Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan’s net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$10,655,546	\$7,778,465	\$5,364,538

Changes in Actuarial Assumptions between Measurement Date and the Fiscal Year End

Based on a new experience study for the five years ending June 30, 2020, the SERS Board lowered the investment rate of return from 7.50 percent to 7.00 percent, lowered inflation from 3.00 percent to 2.40 percent, reduced wage inflation from 3.50 percent to 3.25 percent, reduced COLA from 2.50 percent to 2.00 percent, along with certain other changes for the actuarial valuation as of June 30, 2021. The effects of these changes are unknown.

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2020, actuarial valuation are presented below:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Discount Rate of Return	7.45%
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0%, effective July 1, 2017

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

Actuarial assumptions used in the July 1 2020, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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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%	

*10 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' 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, 2020. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2020. 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, 2020.

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

The following table presents the County'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 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%
Proportionate share of the net pension liability	\$23,238,040	\$16,320,844	\$10,458,096

Changes in Actuarial Assumptions between Measurement Date and the Fiscal Year End

The STRS Board approved a change in the discount rate from 7.45 percent to 7.00 percent for the June 30, 2021 valuation. The effect on the net pension liability is unknown.

Note 9 - Defined Benefit OPEB Plans

See Note 8 for a description of the net OPEB liability (asset).

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Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description

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

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. 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 2021, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2021, this amount was \$23,000. 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 2021, the Center's surcharge obligation was \$64,934.

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 Center's contractually required contribution to SERS was \$64,934 for fiscal year 2021.

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. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

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 the fiscal year ended June 30, 2021, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability (asset) was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Center's proportion of the net OPEB liability (asset) was based on the Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$2,606,502	\$0	\$2,606,502
Proportionate Share of the Net OPEB (Asset)	0	(1,185,457)	(1,185,457)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.11993140%	0.06745142%	
Prior Measurement Date	<u>0.13347040%</u>	<u>0.07805754%</u>	
Change in Proportionate Share	-0.01353900%	-0.01060612%	
OPEB Expense	(\$150,331)	(\$259,567)	(\$409,898)

At June 30 2021, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$34,234	\$75,959	\$110,193
Changes of assumptions	444,318	19,565	463,883
Net difference between projected and actual earnings on OPEB plan investments	29,369	41,546	70,915
Contributions subsequent to the measurement date	64,934	0	64,934
Total Deferred Outflows of Resources	<u>\$572,855</u>	<u>\$137,070</u>	<u>\$709,925</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$1,325,588	\$236,127	\$1,561,715
Changes of assumptions	65,652	1,125,987	1,191,639
Changes in employer proportionate share of net OPEB liability	497,546	680,523	1,178,069
Total Deferred Inflows of Resources	<u>\$1,888,786</u>	<u>\$2,042,637</u>	<u>\$3,931,423</u>

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

\$64,934 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2022	(\$278,418)	(\$487,328)	(\$765,746)
2023	(276,293)	(459,207)	(735,500)
2024	(276,639)	(449,342)	(725,981)
2025	(264,776)	(387,462)	(652,238)
2026	(206,446)	(70,340)	(276,786)
Thereafter	(78,293)	(51,888)	(130,181)
Total	<u>(\$1,380,865)</u>	<u>(\$1,905,567)</u>	<u>(\$3,286,432)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2020, are presented below:

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Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Inflation	3.00%
Wage Increases	3.50% to 18.20%
Investment Rate of Return	7.50% net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	2.45%
Prior Measurement Date	3.13%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	2.63%
Prior Measurement Date	3.22%
Medical Trend Assumption:	
Medicare	5.25% to 4.75%
Pre-Medicare	7.00% to 4.75%

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

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00%	1.85%
US Stocks	22.50%	5.75%
Non-US Stocks	22.50%	6.50%
Fixed Income	19.00%	2.85%
Private Equity	12.00%	7.60%
Real Assets	17.00%	6.60%
Multi-Asset Strategies	5.00%	6.65%
Total	100.00%	

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2020 was 2.63 percent. The discount rate used to measure total OPEB liability at June 30, 2019, was 3.22 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 2.45 percent, as of June 30, 2020 (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 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 (1.63%) and higher (3.63%) than the current discount rate (2.63%). 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 (1.63%)	Current Discount Rate (2.63%)	1% Increase (3.63%)
Proportionate share of the net OPEB liability	\$3,190,293	\$2,606,502	\$2,142,388
	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%)
Proportionate share of the net OPEB liability	\$2,052,422	\$2,606,502	\$3,347,449

Changes in Actuarial Assumptions between Measurement Date and the Fiscal Year End

Based on a new experience study for the five years ending June 30, 2020, the SERS Board reduced the wage growth assumption from 3.50 percent to 3.25 percent and increased the health care rate of return from 5.25 percent to 7.00 percent. The effects of these changes are unknown.

Actuarial Assumptions - STRS

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2020, actuarial valuation are presented below:

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Discount Rate of Return	7.45%
Health Care Cost Trends:	
Medical	
Pre-Medicare	5.00% initial, 4% ultimate
Medicare	-6.69% initial, 4% ultimate
Prescription Drug	
Pre-Medicare	6.50% initial, 4% ultimate
Medicare	11.87% initial, 4% 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, 2020, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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%	

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

*10 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' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2020. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2020.

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

The following table represents the net OPEB asset as of June 30, 2020, 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.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Proportionate share of the net OPEB (asset)	(\$1,031,425)	(\$1,185,457)	(\$1,316,149)
	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$1,308,036)	(\$1,185,457)	(\$1,036,139)

Note 10 - Contingent Liabilities

Grants

The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2021.

Note 11 - Jointly Governed Organizations

The Lake Geauga Computer Association is a jointly governed organization consisting of 19 school districts in Lake, Geauga, Medina and Cuyahoga Counties. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee consists of the member elected superintendents and Treasurers from participating school districts. The degree of control exercised by any participating school Center is limited to its voting rights

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8221 Auburn Road, Painesville, OH 44077.

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

Note 12 - Claims Servicing Pool

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

Note 13 – Insurance Purchasing Pool

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

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

Note 14 – Revenues

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

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

The Lake County School Financing District’s source of revenue is derived from property taxes and related state reimbursements. The taxes go to the Lake County School Financing District and are then allocated and sent to the applicable school districts.

Note 15 - Interfund Transactions

Interfund transactions at June 30, 2021, consisted of the following interfund receivables and interfund payables:

	Interfund	
	Receivable	Payable
General Fund	\$29,920	\$0
Internal Service Fund	0	0
Other Governmental Funds	0	29,920
Total All Funds	<u>\$29,920</u>	<u>\$29,920</u>

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

Note 16 – Accountability

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

Fund	Deficit
Other Governmental Funds:	
Improving Teacher Quality	\$2,500
ESSER	17,559

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

Note 17 – Fund Balances

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Fund Balances	General	Lake County School Financing District	Other Governmental Funds	Total
Nonspendable:				
Unclaimed Monies	\$6,953	\$0	\$0	\$6,953
Prepays	1,269	0	161	1,430
Total Nonspendable	8,222	0	161	8,383
Restricted for:				
Drug Free Fundraiser	0	0	7,879	7,879
Other Grants	0	0	28,898	28,898
Science Center	0	0	49,909	49,909
IDEA Special Education	0	0	22,024	22,024
Progress Project	0	0	3,514	3,514
Safe Drug Free	0	0	52,523	52,523
Coronavirus Relief	0	0	562	562
Student Managed Student Activity	0	0	2,102	2,102
Student Wellness and Success	0	0	8,105	8,105
Lake County Financing District	0	335,818	0	335,818
Total Restricted	0	335,818	175,516	511,334
Assigned to:				
Encumbrances	66,332	0	0	66,332
Public School Support	5,299	0	0	5,299
Total Assigned	71,631	0	0	71,631
Unassigned (Deficit)	1,688,564	0	(20,076)	1,668,488
Total Fund Balance	\$1,768,417	\$335,818	\$155,601	\$2,259,836

Note 18 – Implementation of New Accounting Principles and Restatement of Net Position/Fund Balance

New Accounting Principles

For fiscal year 2021, the Center implemented GASB Statement No. 84, Fiduciary Activities and related guidance from (GASB) Implementation Guide No. 2019-2, Fiduciary Activities, and GASB Statement No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and GASB Statements No. 61.

GASB Statement No. 84 established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the Center will no longer be reporting agency funds. The Center reviewed its agency funds and certain funds will be reported in the new fiduciary fund classification of custodial funds, while other funds have been reclassified as governmental funds. If applicable, fund reclassifications resulted in the restatement of the Center’s financial statements.

GASB Statement No. 90 improves consistency in the measurement and comparability of the financial statement presentation of majority equity interests in legally separate organizations. This Statement also provides guidance for reporting a component unit if a government acquires a 100 percent equity interest in that component unit. The implementation of GASB Statement No. 90 did not have an effect on the financial statements of the District.

Educational Service Center of the Western Reserve, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2021

Restatement of Fund Balance/Net Position

The implementation of GASB 84 had the following effect on fund balance as reported at June 30, 2020:

	Other Governmental Funds
	<u> </u>
Fund Balance, June 30, 2020	\$304,500
Adjustments-Presentation Changes:	
GASB Statement No. 84	<u>6,594</u>
Restated Fund Balance, June 30, 2020	<u><u>\$311,094</u></u>

The implementation of the GASB 84 pronouncement had the following effect on the net position as reported at June 30, 2020:

	Governmental Activities
	<u> </u>
Net Position, June 30, 2020	(\$29,579,043)
Adjustments-Presentation Changes:	
GASB Statement No. 84	<u>6,594</u>
Restated Net Position, June 30, 2020	<u><u>(\$29,572,449)</u></u>

Note 19 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio’s state of emergency ended in June of 2021 while the national state of emergency continues. During fiscal year 2021, the Center received Coronavirus Aid, Relief, and Economic Security (CARES) Act funding. Additional funding has been made available through the Consolidated Appropriations Act, 2021, passed by Congress on December 21, 2020 and/or the American Rescue Plan Act, passed by Congress on March 11, 2021.

Note 20 – Subsequent Events

For fiscal year 2022, foundation funding received from the state of Ohio will be funded using a direct funding model. Under this new model, community school, STEM school and scholarship funding will be directly funded by the State of Ohio to the respective schools. For fiscal year 2021 and prior, the amounts related to students who were residents of the School District were funded to the Center who, in turn, made the payment to the respective school.

REQUIRED SUPPLEMENTARY INFORMATION

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.11760230%	\$7,778,465	\$4,017,200	193.63%	68.55%
2020 (a)	0.13246550%	7,925,643	4,536,126	174.72%	70.85%
2019 (b)	0.13742500%	7,870,584	4,467,075	176.19%	71.36%

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2021	0.06745142%	\$16,320,844	\$7,567,329	215.68%	75.50%
2020 (a)	0.07805754%	17,261,956	9,026,500	191.24%	77.40%
2019 (b)	0.09242855%	20,322,963	10,249,364	198.29%	77.30%

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB Liability	Center's Proportionate Share of the Net OPEB Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2021	0.11993140%	\$2,606,502	\$4,017,200	64.88%	18.17%
2020 (a)	0.13347040%	3,356,500	4,536,126	73.99%	15.57%
2019 (b)	0.13850100%	3,842,392	4,467,075	86.02%	13.57%

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

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

(2) Includes surcharge.

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB (Asset)/Liability	Center's Proportionate Share of the Net OPEB (Asset)/Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability
2021	0.06745142%	(\$1,185,458)	\$7,567,329	(15.67%)	182.13%
2020 (a)	0.07805754%	(1,292,820)	9,026,500	(14.32%)	174.74%
2019 (b)	0.09242855%	(1,485,232)	10,249,364	(14.49%)	176.00%

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

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

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

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

See accompanying notes to the required supplementary information.

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

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

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

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

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

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2021

	Lake County School Financing District Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,033,825	\$5,286,220	\$5,286,220	\$0
Intergovernmental	517,824	543,788	543,788	0
Total Revenues	<u>5,551,649</u>	<u>5,830,008</u>	<u>5,830,008</u>	<u>0</u>
Expenditures:				
Current:				
Instruction:				
Support Services:				
General Administration	5,551,649	5,830,008	5,830,008	0
Total Expenditures	<u>5,551,649</u>	<u>5,830,008</u>	<u>5,830,008</u>	<u>0</u>
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year/Period (includes prior year encumbrances appropriated)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - End of Year/Period	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

See accompanying notes to the required supplementary information.

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2021

Note 1 – Budgetary Process

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

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

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

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

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

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

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

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

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

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2021

Net Change in Fund Balances

	Lake County School Financing District
GAAP Basis	(\$174,879)
Revenue Accruals	174,879
Budget Basis	<u><u>\$0</u></u>

Note 2 - Net Pension Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

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

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

2018: SERS changed from a fixed 3% annual increase to a Cost of Living Adjustment (COLA) based on the change in the Consumer Price Index Index (CPI-W), with a cap of 2.5% and a floor of 0%.

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

Changes in Assumptions:

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

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

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2021

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

2019-2021: There were no changes in benefit terms from the amounts reported for these fiscal years.

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

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

Changes in Assumptions:

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

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

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

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

Note 3 - Net OPEB (Asset)/Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

2017-2021: There were no changes in benefit terms from the amounts reported for these fiscal years.

Changes in Assumptions:

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

- (1) Discount Rate:

Prior Measurement Date	3.22%
Measurement Date	2.63%
- (2) Municipal Bond Index Rate:

Prior Measurement Date	3.13%
Measurement Date	2.45%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	3.22%
Measurement Date	2.63%

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2021

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

- (4) Discount Rate:
 - Prior Measurement Date 3.70%
 - Measurement Date 3.22%
- (5) Municipal Bond Index Rate:
 - Prior Measurement Date 3.62%
 - Measurement Date 3.13%
- (6) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:
 - Prior Measurement Date 3.70%
 - Measurement Date 3.22%

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

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

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

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

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

- (1) The assumed rate of inflation was reduced from 3.25% to 3.00%,
- (2) Payroll growth assumption was reduced from 4.00% to 3.50%,
- (3) Assumed real wage growth was reduced from 0.75% to 0.50%,
- (4) Rates of withdrawal, retirement and disability were updated to reflect recent experience,
- (5) Mortality among active members was updated to RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females,

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2021

- (6) Mortality among service retired members, and beneficiaries was updated to the following RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates, and
- (7) Mortality among disabled members was updated to RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

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

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

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

2018: The subsidy multiplier for non-Medicare benefit recipients was reduced from 2.1 percent to 1.9 percent per year of service. Medicare Part B premium reimbursements were discontinued for certain survivors and beneficiaries and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2019.

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

Changes in Assumptions:

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

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

Educational Service Center of the Western Reserve, Ohio
Notes to the Required Supplementary Information
For Six Months Ended December 31, 2021

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

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

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

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**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Assistance Listing Number	Expenditures
<u>U.S. Department of Education</u>		
<i>Passed through Ohio Department of Education</i>		
Special Education Cluster (IDEA):		
Special Education - Grants to States	84.027	\$ 908,611
Special Education - Grants to States - Restoration	84.027	21,723
Special Education - Grants to States - Early Literacy SSIP (IDEA)	84.027	96,524
Special Education - Grants to States - Parent Mentor Project	84.027	22,728
Special Education - Preschool Grants	84.173	182,102
Special Education - Preschool Grants - Early Literacy SSIP (ELSR)	84.173	28,166
Total Special Education Cluster		1,259,854
 Title I - Grants to Local Educational Agencies	 84.010	 17,614
 Improving Teacher Quality State Grants	 84.367	 9,605
 Education Stabilization Fund -		
Governors Emergency Education Relief Fund	84.425C	73,596
ESSER ESC Family Engagement Liaisons	84.425D	26,077
RemoteDx OCER Department Match	84.425D	93,828
<i>Total ALN #84.425</i>		<u>193,501</u>
Total U.S. Department of Education		1,480,574
<u>U.S. Department of Health and Human Services</u>		
<i>Passed through Ohio Department of Health and Human Services</i>		
Teenage Pregnancy Prevention Program	93.297	117,642
 Block Grants for Prevention and Treatment of Substance Abuse		
Community Prevention Grant (SAPT)	93.959	99,363
Regional Collaborative (RLC)	93.959	20,902
OYLPN Grant for Prevention Training	93.959	2,292
Youth Led Prevention - Study Group	93.959	2,000
<i>Total ALN #93.959</i>		<u>124,557</u>
Total U.S. Department of Health and Human Services		242,199
<u>U.S. Department of the Treasury</u>		
<i>Passed through Ohio Department of Education</i>		
Coronavirus Relief Fund	21.019	6,403
Coronavirus Relief Fund - Broadband Ohio Connectivity	21.019	28,615
<i>Total ALN #21.019</i>		<u>35,018</u>
Total U.S. Department of the Treasury		35,018
<u>Institute of Museum and Library Services</u>		
<i>Passed through Ohio Department of Education</i>		
Grants to States - Libraries	45.310	3,426
Total Institute of Museum and Library Services		3,426
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 \$ 1,761,217

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

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

NOTE 1: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Educational Service Center of the Western Reserve under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Educational Service Center of the Western Reserve, it is not intended to and does not present the financial position, changes in net position or cash flows of the Educational Service Center of the Western Reserve.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3: INDIRECT COST RATE

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

JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

5240 East 98th Street

Garfield Hts., Ohio 44125

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

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

To the Members of the Governing Board
Educational Service Center of the Western
Reserve
Concord Township, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of the Western Reserve, Lake County, Ohio, (the Center) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 29, 2021, wherein we noted the Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. We also noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center, and the school foundation aid received from the State of Ohio will be funded through the direct funding model.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we considered a significant deficiency as item **2021-001**.

Compliance and Other Matters

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

Center's Response to Findings

The Center's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of This Report

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



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 29, 2021

JAMES G. ZUPKA, C.P.A., INC.

*Certified Public Accountants
5240 East 98th Street
Garfield Hts., Ohio 44125*

Member American Institute of Certified Public Accountants

(216) 475 - 6136

Ohio Society of Certified Public Accountants

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE**

To the Members of the Governing Board
Educational Service Center of the Western
Reserve
Concord Township, Ohio

The Honorable Keith Faber
Auditor of State
State of Ohio

Report on Compliance for Each Major Federal Program

We have audited the Educational Service Center of the Western Reserve, Lake County, Ohio's (the Center) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Center's major federal program for the year ended June 30, 2021. The Center's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Educational Service Center of the Western Reserve complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2021.

Report on Internal Control over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

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

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

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



James G. Zupka, CPA, Inc.
Certified Public Accountants

December 29, 2021

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNIFORM GUIDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

1. **SUMMARY OF AUDITOR'S RESULTS**

2021(i)	Type of Financial Statement Opinion	Unmodified
2021(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
2021(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
2021(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2021(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
2021(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
2021(v)	Type of Major Programs' Compliance Opinions	Unmodified
2021(vi)	Are there any reportable findings under 2 CFR 200.516(a)?	No
2021(vii)	Major Programs (list): Special Education Cluster (IDEA) - ALN #84.027 and #84.173	
2021(viii)	Dollar Threshold: A/B Program	Type A: \$750,000 Type B: All Others less than \$750,000
2021(ix)	Low Risk Auditee?	No

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
UNIFORM GUIDANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2021
(CONTINUED)**

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

Finding 2021-001 – Significant Deficiency – Financial Reporting

Condition/Criteria

Financial reporting is the responsibility of the Center’s Finance Department. The Center contracts with an independent accounting firm to prepare the accrual basis financial statements.

During our review of the accrual basis financial statements, we identified the following errors to the financial statements:

- Net Pension/OPEB Liability was understated by \$7,882,591, net OPEB asset was understated by \$328,111, deferred outflows of resources for pension/OPEB was understated by \$837,999, and deferred inflows of resources for pension/OPEB was overstated by \$4,592,717. Net position was overstated by \$2,123,764.

As a result, audit adjustments have been proposed and made to correct the GAAP financial statements for fiscal year 2021.

Cause/Effect

The calculation of the net pension/OPEB liability, net OPEB asset, and related deferred inflows and outflows in based on employer contributions during the measurement period July 1, 2019 through June 30, 2020. This period includes contributions made by the Geauga County and Lake County Educational Service Centers prior to their merger and creation of the Educational Service Center of the Western Reserve on January 1, 2020. The proportionate share of pension/OPEB for the Geauga County Educational Service Center was omitted from the reported balances in error.

Recommendation

We recommend that controls and review procedures be implemented to review the accuracy of the proportionate share used in reporting pension/OPEB balances and to identify, prevent, detect, and correct potential misstatements in the financial statements and footnotes timely.

Center’s Response

All errors referred to above were a result of incorrect GAAP accrual entries that were calculated by and recommended from the Center’s GAAP accounting firm contracted to perform this function. The errors were a result of the merger of the Geauga County ESC and the Lake County ESC in January 2020 and the GAAP accounting firm’s error in not including the Geauga County ESC in the calculations. On a daily basis, the Center maintains accounting records on a cash method of accounting and converts records to a GAAP basis at the end of the year for financial reporting purposes. No errors in the cash basis records were identified. This error will not occur in future periods, as the Center’s pension contributions have been made as a single entity beginning January 1, 2020.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE
LAKE COUNTY, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED JUNE 30, 2021**

The prior audit report, as of June 30, 2020, included no citations or instances of noncompliance.

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OHIO AUDITOR OF STATE KEITH FABER



EDUCATIONAL SERVICE CENTER OF THE WESTERN RESERVE

LAKE COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 2/24/2022

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