MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY
JUNE 30, 2019

TABLE OF CONTENTS

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY
JUNE 30, 2019

TABLE OF CONTENTS
(Continued)

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

INDEPENDENT AUDITOR'S REPORT

Montgomery County Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

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 Montgomery County Educational Service Center, Montgomery County, Ohio (the Center), as of and for the fiscal year ended June 30, 2019, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, Ohio, as of June 30, 2019, and the respective changes in financial position thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis* and *schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Center's basic financial statements taken as a whole.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2020, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Keith Faber
Auditor of State
Columbus, Ohio

February 18, 2020

This page intentionally left blank.

The discussion and analysis of Montgomery County Educational Service Center's (the Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; 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 2019 are as follows:

- Net position of governmental activities increased $1,989,203 or 13%.

- General revenues accounted for $2,893,367 in revenue or 7% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for $37,694,536 or 93% of total revenues of $40,587,903.

- The Center had $38,598,700 in expenses related to governmental activities; $37,694,536 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of $2,893,367 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 Title VI-B 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 2019?" The Government-wide Financial Statements answer this question. These statements include all assets and deferred outflows, and liabilities and deferred inflows 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 change in 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. Non-financial factors include facility conditions, required educational programs and other factors.

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 is presented in the Fund Financial Statements. Fund financial statements 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 Most 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.

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.

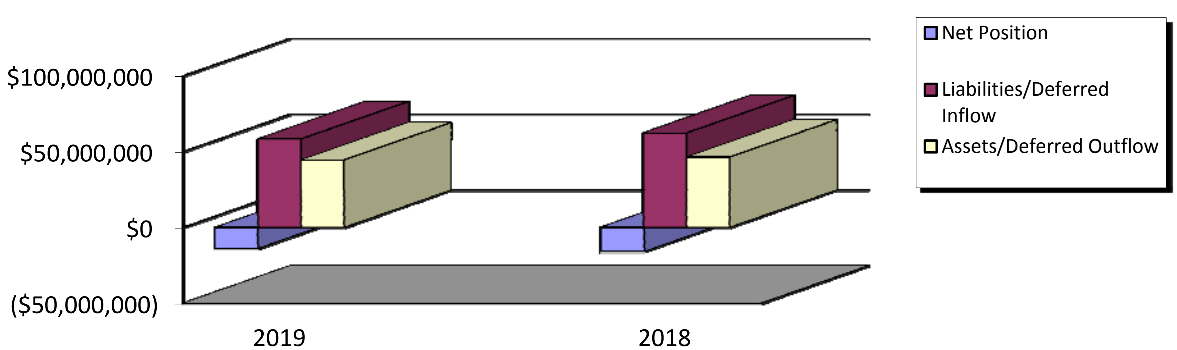
The Center as a Whole

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 2019 compared to 2018:

This Space Intentionally Left Blank

Table 1
Net Position

	Governmental Activities	
	2019	2018
Assets:		
Current and Other Assets	$21,115,484	$22,134,406
Net OPEB Asset	2,132,677	0
Capital Assets	7,729,281	7,645,405
Total Assets	30,977,442	29,779,811
Deferred Outflows of Resources:		
OPEB	949,869	751,884
Pension	12,543,430	15,944,810
Total Deferred Outflows of Resources	13,493,299	16,696,694
Liabilities:		
Other Liabilities	4,572,731	4,048,619
Long-Term Liabilities	45,917,329	54,593,504
Total Liabilities	50,490,060	58,642,123
Deferred Inflows of Resources:		
OPEB	4,017,778	1,178,301
Pension	3,850,563	2,532,944
Total Deferred Inflows of Resources	7,868,341	3,711,245
Net Position:		
Net Investment in Capital Assets	7,729,281	7,645,405
Restricted	1,800,529	1,795,117
Unrestricted	(23,417,470)	(25,317,385)
Total Net Position	($13,887,660)	($15,876,863)



At year-end, capital assets represented 25% of total assets. Investment in capital assets include land, construction in progress, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2019, was $7,729,281. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, $1,800,529, 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.

Current and Other Assets decreased mainly due to a decrease in cash and investments. Capital Assets increased mainly due to current year depreciation expense not exceeding current year additions. Total liabilities decreased due to a decrease in net pension liability and net other post employment benefits liability.

This Space Intentionally Left Blank

Table 2 shows the changes in net position for fiscal years 2019 and 2018.

Table 2
Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues:		
Program Revenues		
Charges for Services	$34,898,357	$31,854,235
Operating Grants and Contributions	2,796,179	3,157,913
General Revenues:		
Grants and Entitlements	1,708,495	1,693,603
Other	1,184,872	310,695
Total Revenues	40,587,903	37,016,446
Program Expenses:		
Instruction	11,822,050	6,676,587
Support Services:		
Pupil and Instructional Staff	18,626,515	9,101,454
School Administration, General Administration, and Fiscal	4,424,314	1,994,161
Operations and Maintenance	2,225,890	1,899,066
Pupil Transportation	57,995	42,536
Central	1,139,358	396,803
Operation of Non-Instructional Services	299,391	261,231
Extracurricular Activities	3,187	533
Total Program Expenses	38,598,700	20,372,371
Change in Net Position	1,989,203	16,644,075
Net Position - Beginning of Year	(15,876,863)	(32,520,938)
Net Position - End of Year	($13,887,660)	($15,876,863)

The Center's revenues are mainly from two sources. Charges for services and operating grants and contributions comprised 93% of the Center's revenues for governmental activities.

Instruction comprises 31% of governmental program expenses. Support services expenses were 68% of governmental program expenses. All other expenses were 1%.

The Center's reliance upon charges for services and operating grants is demonstrated by the following table:

Revenue Sources	2019	Percent of Total
Grants and Entitlements	$1,708,495	4%
Program Revenues	37,694,536	93%
Investment Earnings	403,679	1%
Other Revenues	781,193	2%
	$40,587,903	100%

Revenues in total increased in 2019 as compared to 2018 due to an increase in charges for services and sales. Total expenses increased in 2019 as compared to 2018, due to changes related to net pension liability and other post employment benefits liability.

Governmental Activities

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.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Instruction	$11,822,050	$6,676,587	($422,672)	$4,423,680
Support Services:				
Pupil and Instructional Staff	18,626,515	9,101,454	(298,768)	7,404,442
School Administration, General Administration, and Fiscal	4,424,314	1,994,161	(102,536)	1,743,080
Operations and Maintenance	2,225,890	1,899,066	194,345	803,074
Pupil Transportation	57,995	42,536	(57,995)	(42,536)
Central	1,139,358	396,803	(74,104)	399,668
Operation of Non-Instructional Services	299,391	261,231	(142,233)	(92,169)
Extracurricular Activities	3,187	533	(201)	538
Total Expenses	$38,598,700	$20,372,371	($904,164)	$14,639,777

The Center's Funds

The Center has two major governmental funds: the General Fund and Title VI-B Fund. Assets of these funds comprise $19,465,954 (91%) of the total $21,437,624 governmental funds' assets.

General Fund: Fund balance at June 30, 2019 was $14,721,802 including $9,668,181 of unassigned balance. The primary reason for the decrease in fund balance was due to expenditures exceeding revenues during the year.

Title VI-B Fund: Fund balance at June 30, 2019 was ($196,957). The primary reason for the decrease in fund balance was due to expenditures exceeding revenues again in 2019.

General Fund Budgeting Highlights

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2019 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations.

Capital Assets and Debt Administration

Capital Assets

At the fiscal year end 2019, the Center had $7,729,281 invested in land, construction in progress, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2019 balances as compared to fiscal year 2018:

Table 4
Capital Assets at June 30
(Net of Depreciation)

	Governmental Activities	
	2019	2018
Land	$182,098	$182,098
Construction in Progress	361,510	0
Buildings and Improvements	6,619,302	6,798,439
Furniture and Equipment	276,443	314,326
Vehicles	289,928	350,542
Total Net Capital Assets	$7,729,281	$7,645,405

Capital assets increased in fiscal year 2019 due to current year depreciation expense not exceeding current year additions. See Note 6 to the basic financial statements for further details on the Center's capital assets.

Debt

At June 30, 2019, the Center had no debt outstanding. See Note 11 to the basic financial statements for further details on the Center's long-term obligations.

For the Future

Local Centers are reorganizing and putting buildings to use that were previously rented by the Center. As a result, the Center purchased five buildings in prior fiscal years to accommodate special education programs. The Center has seen positive outcomes from the addition of these buildings and expects this trend to continue. These positive outcomes include additional space for programs and more secure locations for programs which the local Centers find favorable.

Contacting the Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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, at Montgomery County Educational Service Center, 200 South Keowee, Dayton, Ohio 45402.

This Space Intentionally Left Blank

Montgomery County Educational Service Center
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	$17,124,171
Receivables (Net):	
Accounts	2,166,730
Interest	14,507
Intergovernmental	707,454
Notes	1,030,000
Prepaid Items	72,622
Net OPEB Asset	2,132,677
Nondepreciable Capital Assets	543,608
Depreciable Capital Assets, Net	7,185,673
Total Assets	30,977,442
Deferred Outflows of Resources:	
Pension	12,543,430
OPEB	949,869
Total Deferred Outflows of Resources	13,493,299
Liabilities:	
Accounts Payable	31,527
Accrued Wages and Benefits	4,541,204
Long-Term Liabilities:	
Due Within One Year	271,066
Due In More Than One Year	
Net Pension Liability	39,951,238
Net OPEB Liability	5,122,035
Other Amounts	572,990
Total Liabilities	50,490,060
Deferred Inflows of Resources:	
Pension	3,850,563
OPEB	4,017,778
Total Deferred Inflows of Resources	7,868,341
Net Position:	
Investment in Capital Assets	7,729,281
Restricted for:	
Federal Grants	299,184
Regional Transportation	1,260,233
State Grants	96,372
Other Purposes	144,740
Unrestricted	(23,417,470)
Total Net Position	($13,887,660)

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2019

		Program Revenues		Net (Expense) Revenue and Change in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$480	$24,311	$0	$23,831
Special	11,814,955	11,312,925	55,379	(446,651)
Other	6,615	6,763	0	148
Support Services:				
Pupil	9,814,731	9,694,252	5,928	(114,551)
Instructional Staff	8,811,784	6,452,949	2,174,618	(184,217)
General Administration	193,973	174,416	0	(19,557)
School Administration	3,706,467	3,635,890	0	(70,577)
Fiscal	523,874	511,472	0	(12,402)
Operations and Maintenance	2,225,890	2,017,139	403,096	194,345
Pupil Transportation	57,995	0	0	(57,995)
Central	1,139,358	1,065,254	0	(74,104)
Operation of Non-Instructional Services	299,391	0	157,158	(142,233)
Extracurricular Activities	3,187	2,986	0	(201)
Totals	$38,598,700	$34,898,357	$2,796,179	(904,164)

General Revenues:	
Grants and Entitlements, Not Restricted	1,708,495
Revenue in Lieu of Taxes	630,334
Unrestricted Contributions	3,599
Investment Earnings	403,679
Other Revenues	147,260
Total General Revenues	2,893,367
Change in Net Position	1,989,203
Net Position - Beginning of Year	(15,876,863)
Net Position - End of Year	($13,887,660)

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Balance Sheet
Governmental Funds
June 30, 2019

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	$15,742,653	$0	$1,381,518	$17,124,171
Receivables (Net):				
Accounts	1,917,425	3,535	245,770	2,166,730
Interest	14,507	0	0	14,507
Intergovernmental	0	425,328	282,126	707,454
Notes	1,030,000	0	0	1,030,000
Interfund	262,266	0	59,874	322,140
Prepaid Items	68,228	2,012	2,382	72,622
Total Assets	19,035,079	430,875	1,971,670	21,437,624
Liabilities:				
Accounts Payable	31,527	0	0	31,527
Accrued Wages and Benefits	4,262,633	125,723	152,848	4,541,204
Compensated Absences	9,559	0	0	9,559
Interfund Payable	0	76,781	245,359	322,140
Total Liabilities	4,303,719	202,504	398,207	4,904,430
Deferred Inflows of Resources:				
Grants	0	425,328	221,504	646,832
Accounts	5,546	0	0	5,546
Investment Earnings	4,012	0	0	4,012
Total Deferred Inflows of Resources	9,558	425,328	221,504	656,390
Fund Balances:				
Nonspendable	1,098,228	2,012	2,382	1,102,622
Restricted	0	0	1,465,256	1,465,256
Assigned	3,955,393	0	0	3,955,393
Unassigned	9,668,181	(198,969)	(115,679)	9,353,533
Total Fund Balances	14,721,802	(196,957)	1,351,959	15,876,804
Total Liabilities, Deferred Inflows and Fund Balances	$19,035,079	$430,875	$1,971,670	$21,437,624

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Reconciliation of Total Governmental Fund Balance to
Net Position of Governmental Activities
June 30, 2019

Total Governmental Fund Balance		$15,876,804
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		7,729,281
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Interest	4,012	
Intergovernmental	646,832	
Other	5,546	
		656,390
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		(834,497)
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	12,543,430	
Deferred inflows of resources related to pensions	(3,850,563)	
Deferred outflows of resources related to OPEB	949,869	
Deferred inflows of resources related to OPEB	(4,017,778)	
		5,624,958
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	2,132,677	
Net Pension Liability	(39,951,238)	
Net OPEB Liability	(5,122,035)	
		(42,940,596)
Net Position of Governmental Activities		($13,887,660)

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Revenues, Expenditures
and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Title VI-B	Other Governmental Funds	Total Governmental Funds
Revenues:				
Tuition and Fees	$27,952,112	$0	$0	$27,952,112
Investment Earnings	415,350	0	0	415,350
Intergovernmental	1,763,874	1,831,837	862,044	4,457,755
Charges for Services	0	0	893,824	893,824
Contract Services	6,506,745	0	0	6,506,745
Other Revenues	481,616	0	87,582	569,198
Total Revenues	37,119,697	1,831,837	1,843,450	40,794,984
Expenditures:				
Current:				
Instruction:				
Regular	3,373	0	0	3,373
Special	12,910,352	0	0	12,910,352
Other	7,539	0	0	7,539
Support Services:				
Pupil	10,796,836	0	101,316	10,898,152
Instructional Staff	6,399,012	1,524,178	1,373,946	9,297,136
General Administration	195,369	0	0	195,369
School Administration	4,148,560	0	0	4,148,560
Fiscal	515,547	0	56,859	572,406
Operations and Maintenance	1,772,498	362,968	55,372	2,190,838
Pupil Transportation	0	0	9,260	9,260
Central	1,215,263	0	0	1,215,263
Operation of Non-Instructional Services	0	0	305,880	305,880
Extracurricular Activities	3,329	0	0	3,329
Capital Outlay	371,692	0	0	371,692
Total Expenditures	38,339,370	1,887,146	1,902,633	42,129,149
Excess of Revenues Over (Under) Expenditures	(1,219,673)	(55,309)	(59,183)	(1,334,165)
Other Financing Sources (Uses):				
Transfers In	0	0	149,573	149,573
Transfers (Out)	(149,573)	0	0	(149,573)
Total Other Financing Sources (Uses)	(149,573)	0	149,573	0
Net Change in Fund Balance	(1,369,246)	(55,309)	90,390	(1,334,165)
Fund Balance - Beginning of Year	16,091,048	(141,648)	1,261,569	17,210,969
Fund Balance - End of Year	$14,721,802	($196,957)	$1,351,959	$15,876,804

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
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, 2019

Net Change in Fund Balance - Total Governmental Funds		($1,334,165)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital asset additions as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.		
Capital assets used in governmental activities	380,080	
Depreciation Expense	(296,204)	
		83,876
Governmental funds report center pension and OPEB contributions as expenditures. However in the Statement of Activites, the cost of pension and OPEB benefits earned net of employer contributions is reported as pension and OPEB expense.		
Pension Contributions	3,396,126	
Pension Expense	(4,392,729)	
OPEB Contributions	87,089	
OPEB Expense	4,410,196	
		3,500,682
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Interest	(11,671)	
Intergovernmental	46,919	
Other	(242,329)	
		(207,081)
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		(54,109)
Change in Net Position of Governmental Activities		$1,989,203

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Fiduciary Funds
June 30, 2019

	Agency
Assets:	
Equity in Pooled Cash and Investments	$170,962
Total Assets	170,962
Liabilities:	
Other Liabilities	170,962
Total Liabilities	$170,962

See accompanying notes to the basic financial statements.

Note 1 – Description of the Center and Reporting Entity

The Montgomery County Educational Service Center (the Center) is located in Dayton, Ohio, the county seat. The Montgomery County Board of Education was established in 1914, and in 1995, the legislature mandated the name change to Center. The Center supplies supervisory, special education, administrative, and other services to many school districts throughout the Miami Valley. The Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Montgomery County Educational Service Center operates under a locally-elected five member Board form of government and provides educational services as mandated by State and/or federal agencies. The Center has 196 classified staff employees, 265 certified (licensed teaching personnel), and 13 administrative employees that provide services to the local, exempted village, and city school districts.

Reporting Entity

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

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

The Center participates in three jointly governed organizations, two insurance purchasing pools, and one public entity shared risk pool. These organizations are discussed in Note 13 to the basic financial statements. These organizations are:

Jointly Governed Organizations:
- Metropolitan Educational Technology Association
- Southwestern Ohio Educational Purchasing Council
- Shared Resource Center Regional Council of Governments

Insurance Purchasing Pools:
- Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan
- Ohio School Plan

Public Entity Shared Risk Pool
- Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

Note 2 – Summary of Significant Accounting Policies

The financial statements of the Montgomery County Educational Service Center have been prepared in conformity with generally accepted accounting principles (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. The more significant of the Center's accounting policies are described below.

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. The Center allocates certain indirect costs. The indirect costs are included as part of the program expense reported for individual functions and activities. 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 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.

The agency funds are reported using the economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the Statement of Fiduciary Assets and Liabilities.

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Center are financed. Governmental fund reporting focuses 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, deferred outflows of resources, 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 is the operating fund of the Center and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Title VI-B Fund - The Title VI-B Fund accounts for restricted federal special education grants that assist in providing an appropriate public education to all children with disabilities.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's fiduciary funds include three agency funds. The Center's agency funds account for the activity of the Shared Resource Center Regional Council of Governments as well as a flexible spending and flower account for employees.

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 and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows of resources, 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 fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within 60 days of fiscal year-end.

Non-exchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal 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 non-exchange 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 fiscal year-end: excess costs, tuition and student fees, grants, and accrued 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 for pension and OPEB are included on the government-wide statement of net position. For more pension and OPEB related information, see 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 include grants, pension, OPEB, accounts, and investment earnings. The amounts related to grants, investment earnings and accounts are only recorded on the fund level balance sheet and have been recorded as revenue on the statement of activities. The amount related to pension and OPEB is only recorded 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. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Equity in Pooled Cash and Investments

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

During fiscal year 2019, the Center's investments were limited to negotiable certificates of deposit and a Federal Home Loan Mortgage Corp. Note, which are valued using pricing sources, as provided by the investment managers.

Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2019 amounted to $415,350.

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 the fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables”. These amounts are eliminated on the governmental activities columns of 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.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and expenditure/expense is reported in the year in which services are consumed.

Capital Assets

The Center’s only capital assets are general capital assets. General capital assets are those assets specifically related to governmental activities. General capital assets usually result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost, which is determined by indexing the current replacement cost back to the year of acquisition) and updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Center maintains a capitalization threshold of $5,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

Description	Estimated Lives
Buildings and Improvements	50 years
Furniture and Equipment	5-10 years
Vehicles	5-10 years

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Loans that will be paid from governmental funds are recognized as a liability in the fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB asset/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

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 eligible employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Center.

The entire compensated absences liability is reported on the government-wide financial statements. On governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Compensated Absences" in the funds from which the employees will be paid.

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, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes includes miscellaneous funds whose use is restricted to specified purposes.

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 $1,800,529 in restricted net position, none were restricted by enabling legislation.

Estimates

The preparation of the 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.

Budgetary Process

No budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Centers are not required to prepare a budget.

Fund Balance

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

> Nonspendable – resources that are not in spendable form 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 resolution.
>
> 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 fund balance resulting from incurred expenses 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.

Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Center's policy to use restricted resources first, then unrestricted resources as they are needed.

Note 3 – Equity in Pooled Cash and Investments

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.

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

3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met.

5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

7. The State Treasurer's investment pool (STAR Ohio).

8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

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.

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

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement 40, "Deposit and Investment Risk Disclosures".

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, 2019, $8,611,691 of the Center's bank balance of $9,111,691 was exposed to custodial credit risk because it was uninsured and collateralized.

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

> Eligible securities pledged to the Center and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105% of the deposits being secured; or
>
> Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102% of the deposits being secured or a rate set by the Treasurer of State.

Investments

As of June 30, 2019, the Center had the following investments:

Investment Type	Value	Hierachy	Maturity (Years)
Negotiable CD's	$7,491,094	Level 2	1.27
Federal Home Loan Mortgage Corp. Notes	866,000	Level 2	3.50

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. Investments classified in Level 2 of the fair value hierarchy are valued using pricing sources, as provided by the investment managers. Level 3 inputs are significant unobservable inputs. The above table identifies the Center's recurring fair value measurements as of June 30, 2019.

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 five 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 the highest credit quality rating issued by nationally recognized statistical rating organizations. Negotiable CD's are not rated. The District's investment in FHLMC notes was rated AAA by Standard and Poor's and Fitch.

Concentration of Credit Risk – The Center's investment policy allows investments in Federal Agencies or Instrumentalities. The Center has invested 90% in Negotiable CD's and 10% in Federal Home Loan Mortgage Corp. Notes.

Custodial Credit Risk - Is the risk that the Center takes 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. The Center's investment policy does not address this risk for investments.

Note 4 – State and Local School District Funding

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

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

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

Note 5 – Receivables

Receivables at June 30, 2019, consisted of interest, accounts, intergovernmental, notes and interfund. All receivables are considered collectible in full and will be received within one year.

During fiscal year 2017, the Center initiated a loan in the form of a promissory note to the Shared Resource Center Regional Council of Governments (the Council) for its initial operating costs. The Council promised to pay the Center the principal sum with interest accruing at a rate of three percent (3%) annually. The Council must pay the entire amount due not later than February 17, 2020, unless an agreement is formed to extend the due date. During fiscal year 2018, a formal agreement was formed to extend the due date to February 28, 2021. Time for payment of the notes may be extended from time to time and the notes may be renewed from time to time, all without notice and without affecting, in any manner, the liability for payment of the notes. The notes may be prepaid in full or in part at any time, without penalty. At June 30, 2019, the amount of this note is $1,030,000, which the Center has reported as notes receivable.

Note 6 – Capital Assets

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

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated:				
Land	$182,098	$0	$0	$182,098
Construction in Progress	0	361,510	0	361,510
Total Capital Assets, not being depreciated	182,098	361,510	0	543,608
Capital Assets, being depreciated:				
Buildings and Improvements	8,787,187	0	0	8,787,187
Furniture and Equipment	3,810,703	18,570	34,596	3,794,677
Vehicles	974,827	0	0	974,827
Total Capital Assets, being depreciated	13,572,717	18,570	34,596	13,556,691
Totals at Historical Cost	13,754,815	380,080	34,596	14,100,299
Less Accumulated Depreciation:				
Buildings and Improvements	1,988,748	179,137	0	2,167,885
Furniture and Equipment	3,496,377	56,453	34,596	3,518,234
Vehicles	624,285	60,614	0	684,899
Total Accumulated Depreciation	6,109,410	296,204	34,596	6,371,018
Governmental Activities Capital Assets, Net	$7,645,405	$83,876	$0	$7,729,281

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	$19,853
Support Services:	
Pupil	32,728
Instructional Staff	63,420
School Administration	6,821
Fiscal	7,364
Operations and Maintenance	101,658
Pupil Transportation	48,734
Central	13,763
Operation of Non-Instructional Services	1,863
Total Depreciation Expense	$296,204

Note 7 – Risk Management

Property and Liability

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool (See Note 13). Each individual participant enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Center pays this annual premium to the OSP. The Center contracts for property, fleet, violence, pollution, and liability insurance with OSP.

Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There has not been a significant reduction in insurance coverage from the last fiscal year.

Workers' Compensation

For fiscal year 2019, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

Medical Benefits

For fiscal year 2019, the Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (Note 13). The Center pays monthly premiums to the Trust for employee medical insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

Note 8 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension 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 and 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 obligation to sacrifice resources for pensions and OPEB are a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension/OPEB liability (asset) represent the Center's proportionate share of each pension and OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension and 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 and OPEB are financed; however, the Center does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB Statements No. 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a long-term net pension/OPEB liability (asset) on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

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

Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy
Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The contractually required contribution to SERS was $990,325 for fiscal year 2019. Of this amount $700 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. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

Funding Policy
Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. For fiscal year 2019, the contributions rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The contractually required contribution to STRS was $2,405,801 for fiscal year 2019. Of this amount $358,958 is reported as accrued wages and benefits.

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, 2018, 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:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$10,769,061	$29,182,177	$39,951,238
Proportion of the Net Pension Liability:			
Current Measurement Date	0.18803410%	0.13272013%	
Prior Measurement Date	0.17604950%	0.13956963%	
Change in Proportionate Share	0.01198460%	-0.00684950%	
Pension Expense	$855,068	$3,537,661	$4,392,729

At June 30, 2019, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$590,615	$673,614	$1,264,229
Changes of assumptions	243,188	5,171,632	5,414,820
Changes in employer proportionate share of net pension liability	416,354	2,051,901	2,468,255
Contributions subsequent to the measurement date	990,325	2,405,801	3,396,126
Total Deferred Outflows of Resources	$2,240,482	$10,302,948	$12,543,430
Deferred Inflows of Resources			
Differences between expected and actual experience	$0	$190,577	$190,577
Net difference between projected and actual earnings on pension plan investments	298,378	1,769,575	2,067,953
Changes in employer proportionate share of net pension liability	345,460	1,246,573	1,592,033
Total Deferred Inflows of Resources	$643,838	$3,206,725	$3,850,563

$3,396,126 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, 2020. 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
2020	$747,253	$3,285,665	$4,032,918
2021	303,988	1,694,349	1,998,337
2022	(353,412)	344,036	(9,376)
2023	(91,510)	(633,628)	(725,138)
Total	$606,319	$4,690,422	$5,296,741

Actuarial Assumptions - SERS

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

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

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

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

Inflation	3.00%
Future Salary Increases, including inflation	3.50% to 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	1.00%	0.50%
US Stocks	22.50%	4.75%
Non-US Stocks	22.50%	7.00%
Fixed Income	19.00%	1.50%
Private Equity	10.00%	8.00%
Real Assets	15.00%	5.00%
Multi-Asset Strategies	10.00%	3.00%
Total	100.00%	

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

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	$15,169,035	$10,769,061	$7,079,978

Assumption and Benefit Changes Since the Prior Measurement Date
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.

Actuarial Assumptions - STRS

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

Inflation	2.50%
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. Post-retirement disabled mortality rates are based on the RP-2014 Disabled Mortality Table with 90 percent of rates for males and 100 percent of rates for females, projected forward generationally using mortality improvement scale MP-2016. Pre-retirement mortality rates are based on RP-2014 Employee Mortality Table, projected forward generationally using mortality improvement scale MP-2016.

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

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

Asset Class	Target Allocation	Long-Term Expected 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 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

Discount Rate

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

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate
The following table represents the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what 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 discount rate:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	$42,616,727	$29,182,177	$17,811,652

Assumption and Benefit Changes since the Prior Measurement Date
There were no changes in assumptions or benefit terms since the prior measurement date.

Note 9 - Defined Benefit OPEB Plans

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

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 Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

Funding Policy

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was $21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Center's surcharge obligation was $50,410.

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 contractually required contribution to SERS was $87,089 for fiscal year 2019. Of this amount $50,410 is reported s accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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

Funding Policy

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

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, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The 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:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	$5,122,035	$0	$5,122,035
Proportionate Share of the Net OPEB (Asset)	0	(2,132,677)	(2,132,677)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.18462640%	0.13272013%	
Prior Measurement Date	0.17448220%	0.13956963%	
Change in Proportionate Share	0.01014420%	-0.00684950%	
OPEB Expense	$200,628	($4,610,824)	($4,410,196)

At June 30, 2019, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$83,610	$249,101	$332,711
Changes in employer proportionate share of net OPEB liability	252,182	277,887	530,069
Contributions subsequent to the measurement date	87,089	0	87,089
Total Deferred Outflows of Resources	$422,881	$526,988	$949,869
Deferred Inflows of Resources			
Differences between expected and actual experience	$0	$124,257	$124,257
Changes of assumptions	460,176	2,905,942	3,366,118
Net difference between projected and actual earnings on OPEB plan investments	7,685	243,640	251,325
Changes in employer proportionate share of net OPEB liability	31,994	244,084	276,078
Total Deferred Inflows of Resources	$499,855	$3,517,923	$4,017,778

$87,089 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, 2020. 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
2020	($158,846)	($526,646)	($685,492)
2021	(113,598)	(526,646)	(640,244)
2022	29,691	(526,646)	(496,955)
2023	32,963	(471,314)	(438,351)
2024	32,430	(451,903)	(419,473)
Thereafter	13,297	(487,780)	(474,483)
Total	($164,063)	($2,990,935)	($3,154,998)

Actuarial Assumptions - SERS

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

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

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

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

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	3.62%
Prior Measurement Date	3.56%
Single Equivalent Interest Rate, net of plan investment expense, including price inflation:	
Measurement Date	3.70%
Prior Measurement Date	3.63%
Medical Trend Assumption:	
Medicare	5.375% to 4.75%
Pre-Medicare	7.25% to 4.75%

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 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	1.00%	0.50%
US Stocks	22.50%	4.75%
Non-US Stocks	22.50%	7.00%
Fixed Income	19.00%	1.50%
Private Equity	10.00%	8.00%
Real Assets	15.00%	5.00%
Multi-Asset Strategies	10.00%	3.00%
Total	100.00%	

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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 (2.70 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25 percent decreasing to 3.75 percent) and higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Proportionate share of the net OPEB liability	$6,215,187	$5,122,035	$4,256,464

	1% Decrease (6.25% decreasing to 3.75%)	Current Trend Rate (7.25% decreasing to 4.75%)	1% Increase (8.25% decreasing to 5.75%)
Proportionate share of the net OPEB liability	$4,132,543	$5,122,035	$6,432,301

Assumption and Benefit Changes since the Prior Measurement Date
The following changes in key methods and assumptions as presented below:

(1) Discount Rate:

Prior Measurement Date	3.63%
Measurement Date	3.70%

(2) Municipal Bond Index Rate:

Prior Measurement Date	3.56%
Measurement Date	3.62%

(3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	3.63%
Measurement Date	3.70%

Actuarial Assumptions - STRS

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

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%
Discount Rate of Return	7.45%
Health Care Cost Trends:	
Medical:	
Pre-Medicare	6% initial, 4% ultimate
Medicare	5% initial, 4% ultimate
Prescription Drug:	
Pre-Medicare	8% initial, 4% ultimate
Medicare	(5.23%) 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, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

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

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 includes the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

Discount Rate

The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

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, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB (asset) as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Proportionate share of the net OPEB (asset)	($1,827,904)	($2,132,677)	($2,388,824)

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	($2,374,364)	($2,132,677)	($1,887,225)

Assumption and Benefit Changes since the Prior Measurement Date

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

The subsidy multiplier for non-Medicare benefit recipients was increased from 1.900 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

Note 10 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. All 12 month employees earn 10 to 23 days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to all staff who have any accumulated vacation upon termination of employment. Teachers do not earn vacation time.

All regular, full-time employees earn three days of personal leave per fiscal year. All regular, part-time staff earn personal leave at a prorated rate based upon the percentage they work compared to full-time. All personal leave must be used by fiscal year-end and cannot be carried forward.

All regular, full-time teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 285 days for all personnel. Upon retirement, employees with 10 or more years of current service with the public schools of Ohio receive payment for one-fourth of accrued, but unused sick leave credit to a maximum of 66 days.

Insurance Benefits

The Center provides life insurance and accidental death and dismemberment insurance to full-time employees through Sun Life Assurance Company of Canada. Dental insurance is provided through Dental Care Plus.

Deferred Compensation Plan

Employees may elect to participate in the Ohio Public Employees Deferred Compensation Plan or the Ohio Association of School Board Officials (OASBO) Deferred Compensation Plan. The plans were created in accordance with Internal Revenue Code Section 457. Participation is on a voluntary payroll deduction basis. The plans permit deferral of compensation until future years. According to the plans, the deferred compensation is not available until termination, retirement, death or an unforeseeable emergency.

Note 11 – Long-Term Obligations

The changes in the Center's long-term obligations during fiscal year 2019 were as follows:

	Beginning Outstanding	Additions	Deductions	Ending Outstanding	Due In One Year
Governmental Activities:					
Compensated Absences	$791,735	$260,359	$208,038	$844,056	$271,066
Net Pension Liability:					
STRS	33,155,064	0	3,972,887	29,182,177	0
SERS	10,518,569	250,492	0	10,769,061	0
Total Net Pension Liability	43,673,633	250,492	3,972,887	39,951,238	0
Net OPEB Liability:					
STRS	5,445,492	0	5,445,492	0 (a)	0
SERS	4,682,644	439,391	0	5,122,035	0
Total Net OPEB Liability	10,128,136	439,391	5,445,492	5,122,035	0
Total Long-Term Obligations	$54,593,504	$950,242	$9,626,417	$45,917,329	$271,066

(a) OPEB for STRS has a Net OPEB asset in the amount of $2,132,677 as of June 30, 2019.

Compensated absences will be paid from the General, Miscellaneous State Grants, Miscellaneous Federal Grants, Regional Transportation, and Title VI-B funds. There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the fund benefitting from their service.

Note 12 – Interfund Balances/Transfers

Interfund transactions at June 30, 2019, consisted of the following individual fund receivables and payables and transfers in and out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	$262,266	$0	$0	$149,573
Title VI-B	0	76,781	0	0
Other Governmental Funds	59,874	245,359	149,573	0
Total All Funds	$322,140	$322,140	$149,573	$149,573

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 budgetary authorization and to segregate and to return money to the fund from which it was originally provided once a project is completed.

All interfund balances are expected to be paid within one year.

Note 13 – Jointly Governed Organizations, Insurance Purchasing Pools and Public Entity Shared Risk Pool

Jointly Governed Organizations

Metropolitan Educational Technology Association (META) - The Center was a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA). During 2016, MDECA merged with the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs. The governing board of META consists of a president, vice president and six board members who represent the members of META. The Board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each District and Centers' degree of control is limited to its representation on the Board. The Center paid META $18,096 for services provided during the fiscal year. Financial information can be obtained from the Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

Southwestern Ohio Educational Purchasing Council -The Center participates in the Southwestern Ohio Educational Purchasing Council (SOEPC), a purchasing council made up of over 100 school districts and educational service centers in 13 counties. The purpose of the council is to obtain prices for quality merchandise and services commonly used by schools. All member districts are obligated to pay all fees, charges, or other assessments as established by the SOEPC.

Each member district has one voting representative. Title to any and all equipment, furniture, and supplies purchased by SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2019, the Center paid $0 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, the Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

Shared Resource Center Regional Council of Governments – The Center participates in the Shared Resources Center Regional Council of Governments (the Council), a jointly governed organization consisting of educational entities within Montgomery County. The purpose of the Council is to provide cost effective services to its members and to other entities, enhance and facilitate relationships between stakeholders in the public and private sector, and collaborate on research and development for innovations in education and local government. The Council is governed by a Governing Board, consisting of one individual from each of the seven original members, including the Center. The degree of control exercised by any participating educational entity is limited to its representation on the Governing Board. Financial information can be obtained from Montgomery County Educational Service Center (the fiscal agent), 200 South Keowee Street, Dayton, Ohio 45402.

Insurance Purchasing Pools

Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan - The Center participates in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by an 11 member Executive Committee consisting of the Chairperson, the Vice-Chairperson, a representative from the Montgomery County Educational Service Center and eight other members elected by majority vote of all member school districts. The Chief Administrator of the GRP serves as the coordinator of the program. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

Ohio School Plan - The Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The OSP was created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the sole purpose of enabling members of the OSP to provide for a formalized, jointly administered self-insurance program to maintain adequate self-insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a 12 member Board of Directors consisting of school district superintendents and treasurers. The OSP has an agreement with Hylant Administrative Services, LLC to provide underwriting, claims management, risk management, accounting, system support services, sales and marking to the OSP. Hylant Administrative Services, LLC also coordinates reinsurance brokerage services for the OSP.

Public Entity Shared Risk Pool

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

Note 14 – Accountability

The following funds had deficit fund balances as of June 30, 2019:

Major Fund:	
Title VI-B	$196,957
Other Governmental Funds:	
Food Service	10,594
Miscellaneous State Grants	13,777
Title I	6,064
ECO Training	3,129
Miscellaneous Federal Grants	77,159
Title III	3,868

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in fiscal year 2020. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

Note 15 – 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 governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General	Title VI-B	Other Governmental Funds	Total
Nonspendable:				
Prepaids	$68,228	$2,012	$2,382	$72,622
Notes Receivable	1,030,000	0	0	1,030,000
Total Nonspendable	1,098,228	2,012	2,382	1,102,622
Restricted for:				
Scholarship	0	0	6,125	6,125
Rotary	0	0	80,678	80,678
Regional Transportation	0	0	1,260,233	1,260,233
Mentoring Services	0	0	58,346	58,346
Ohio Resident Educator Grant	0	0	59,874	59,874
Total Restricted	0	0	1,465,256	1,465,256
Assigned to:				
Encumbrances	3,955,393	0	0	3,955,393
Total Assigned	3,955,393	0	0	3,955,393
Unassigned (Deficit)	9,668,181	(198,969)	(115,679)	9,353,533
Total Fund Balance	$14,721,802	($196,957)	$1,351,959	$15,876,804

Note 16 – Contingencies

Grants

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

Litigation

There are currently no matters in litigation with the Center as defendant.

Note 17 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, the following have been implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

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

GASB Statement No. 88 sets out to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. If applicable, GASB Statement No. 88 has been implemented in the notes to financial statements.

Note 18 – Subsequent Events

In July 2019, the Center loaned the Shared Resource Center Regional Council of Governments additional funds totaling $45,000, bringing the total of the Promissory Note to $1,075,000.

REQUIRED SUPPLEMENTARY INFORMATION

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of the Center's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Six 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-Employee Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.13272013%	$29,182,177	$15,144,550	192.69%	77.30%
2018	0.13956963%	33,155,064	15,479,750	214.18%	75.30%
2017	0.13229514%	44,283,171	14,060,350	314.95%	66.80%
2016	0.13429051%	37,113,970	14,173,557	261.85%	72.10%
2015	0.12080229%	29,383,298	13,292,092	221.06%	74.70%
2014	0.12080229%	34,906,932	13,820,008	252.58%	69.30%

(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 2014 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.

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of the Center's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Six 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-Employee Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2019	0.18803410%	$10,769,061	$6,314,415	170.55%	71.36%
2018	0.17604950%	10,518,569	6,139,621	171.32%	69.50%
2017	0.17788510%	13,019,548	5,570,857	233.71%	62.98%
2016	0.20395370%	11,637,797	6,498,596	179.08%	69.16%
2015	0.19182200%	9,708,002	5,630,281	172.42%	71.70%
2014	0.19182200%	11,410,460	5,073,194	224.92%	65.52%

(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 2014 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.

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of Center's Contributions for Net Pension Liability
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2019	$2,405,801	($2,405,801)	$0	$17,184,293	14.00%
2018	2,120,237	(2,120,237)	0	15,144,550	14.00%
2017	2,167,165	(2,167,165)	0	15,479,750	14.00%
2016	1,968,449	(1,968,449)	0	14,060,350	14.00%
2015	1,984,298	(1,984,298)	0	14,173,557	14.00%
2014	1,727,972	(1,727,972)	0	13,292,092	13.00%
2013	1,796,601	(1,796,601)	0	13,820,008	13.00%
2012	1,881,000	(1,881,000)	0	14,469,231	13.00%
2011	1,726,279	(1,726,279)	0	13,279,069	13.00%
2010	2,095,029	(2,095,029)	0	16,115,608	13.00%

See accompanying notes to the required supplementary information.

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of Center's Contributions for Net Pension Liability
School Employees Retirement System of Ohio
Last Ten Fiscal Years

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2019	$990,325	($990,325)	$0	$7,335,741	13.50%
2018	852,446	(852,446)	0	6,314,415	13.50%
2017	859,547	(859,547)	0	6,139,621	14.00%
2016	779,920	(779,920)	0	5,570,857	14.00%
2015	856,515	(856,515)	0	6,498,596	13.18%
2014	780,357	(780,357)	0	5,630,281	13.86%
2013	702,130	(702,130)	0	5,073,194	13.84%
2012	736,573	(736,573)	0	5,476,379	13.45%
2011	422,384	(422,384)	0	3,360,255	12.57%
2010	457,076	(457,076)	0	3,375,746	13.54%

See accompanying notes to the required supplementary information.

Montgomery County Educational Service Center
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-Employee Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability
2019	0.13272013%	($2,132,677)	$15,144,550	(14.08%)	176.00%
2018	0.13956963%	5,445,492	15,479,750	35.18%	47.10%
2017	0.13229514%	7,075,179	14,060,350	50.32%	37.30%

(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 2017 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.

Montgomery County Educational Service Center
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-Employee Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2019	0.18462640%	$5,122,035	$6,314,415	81.12%	13.57%
2018	0.17448220%	4,682,644	6,139,621	76.27%	12.46%
2017	0.17688015%	5,041,738	5,570,857	90.50%	11.49%

(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 2017 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.

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of Center's Contributions for Net OPEB (Asset)/Liability
State Teachers Retirement System of Ohio
Last Four Fiscal Years (1)

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2019	$0	$0	$0	$17,184,293	0.00%
2018	0	0	0	15,144,550	0.00%
2017	0	0	0	15,479,750	0.00%
2016	0	0	0	14,060,350	0.00%

(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 2016 is not available.

See accompanying notes to the required supplementary information.

Montgomery County Educational Service Center
Required Supplementary Information
Schedule of Center's Contributions for Net OPEB Liability
School Employees Retirement System of Ohio
Last Four Fiscal Years (1) (2)

Year	Center's Contractually Required Contribution (2)	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2019	$87,089	($87,089)	$0	$7,335,741	1.19%
2018	104,072	(104,072)	0	6,314,415	1.65%
2017	75,821	(75,821)	0	6,139,621	1.23%
2016	74,968	(74,968)	0	5,570,857	1.35%

(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 2016 is not available.

(2) Includes surcharge.

See accompanying notes to the required supplementary information.

Note 1 - Net Pension Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:
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 changed 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:
2018-2019: 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.

State Teachers Retirement System (STRS)

Changes in Benefit Terms:
2019: There were no changes in benefit terms from the amounts reported for this fiscal year.

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

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 2 - Net OPEB (Asset)/Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:
2017-2019: There were no changes in benefit terms from the amounts reported for these fiscal years.

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

(1) Discount Rate:

Prior Measurement Date	3.63%
Measurement Date	3.70%

(2) Municipal Bond Index Rate:

Prior Measurement Date	3.56%
Measurement Date	3.62%

(3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	3.63%
Measurement Date	3.70%

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

(1) Discount Rate:

Fiscal Year 2018	3.63%
Fiscal Year 2017	2.98%

(2) Municipal Bond Index Rate:

Fiscal Year 2018	3.56%
Fiscal Year 2017	2.92%

(3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal Year 2018	3.63%
Fiscal Year 2017	2.98%

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

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

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

State Teachers Retirement System (STRS)

Changes in Benefit Terms:
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:
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.

This page intentionally left blank.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

FEDERAL GRANTOR ***Pass Through Grantor*** **Program / Cluster Title**	**Federal CFDA Number**	**Pass Through Entity Identifying Number**	**Federal Receipts**	**(1) Federal Expenditures**
U.S. Department of Agriculture				
Passed through Ohio Department of Education				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	$57,909	$57,909
National School Lunch Program	10.555	N/A	96,462	96,462
Total Child Nutrition Cluster			154,371	154,371
Total U.S. Department of Agriculture			154,371	154,371
U.S. Department of Education				
Passed through Ohio Department of Education				
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027	H027A170111	1,950,399	1,908,618
Special Education Preschool Grants	84.173	H173A170119	84,696	82,345
Total Special Education Cluster (IDEA)			2,035,095	1,990,963
English Language Acquisition State Grants	84.365	N/A		3,868
Title I Grants to Local Educational Agencies	84.010	S010A170035 / S010A180035	167,215	160,204
School Safety National Activities	84.184	N/A		20,700
Special Education - State Personnel Development	84.323	N/A		984
Total U.S. Department of Education			2,202,310	2,176,719
Total Federal Financial Assistance			2,356,681	2,331,090

(1) There were no amounts passed through to subrecipients.

The accompanying notes are an integral part of this schedule.

NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Montgomery County Educational Service Center (the Center) under programs of the federal government for the fiscal year ended June 30, 2019. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position or changes in net position of the Center.

NOTE B – 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 Uniform Guidance wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

The Center has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - CHILD NUTRITION CLUSTER

The Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first.

NOTE E - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

OHIO AUDITOR OF STATE
KEITH FABER

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

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

Montgomery County Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, (the Center) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 18, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Keith Faber
Auditor of State
Columbus, Ohio

February 18, 2020

OHIO AUDITOR OF STATE
KEITH FABER

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Montgomery County Educational Service Center
Montgomery County
200 South Keowee Street
Dayton, Ohio 45402

To the Board of Education:

Report on Compliance for the Major Federal Program

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

Management's Responsibility

The Center's Management is responsible for complying with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

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

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

Basis for Qualified Opinion on the Special Education Cluster (IDEA)

As described in finding 2019-001 in the accompanying schedule of findings, the Center did not comply with requirements regarding equipment and real property management applicable to its Special Education Cluster major federal program. Compliance with this requirement is necessary, in our opinion, for the Center to comply with requirements applicable to this program.

Qualified Opinion on the Special Education Cluster (IDEA)

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Special Education Cluster (IDEA)* paragraph, the Montgomery County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect its Special Education Cluster (IDEA) for the fiscal year ended June 30, 2019.

Other Matters

The Center's response to our noncompliance finding is described in the accompanying corrective action plan. We did not subject the Center's responses to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness, described in the accompanying schedule of findings as item 2019-001.

The Center's response to our internal control over compliance finding is described in the accompanying corrective action plan. We did not subject the Center's response to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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

Keith Faber
Auditor of State
Columbus, Ohio

February 18, 2020

This page intentionally left blank.

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER
MONTGOMERY COUNTY

SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2019

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Unmodified
(d)(1)(ii)	**Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(ii)	**Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?**	No
(d)(1)(iii)	**Was there any reported material noncompliance at the financial statement level (GAGAS)?**	No
(d)(1)(iv)	**Were there any material weaknesses in internal control reported for major federal programs?**	Yes
(d)(1)(iv)	**Were there any significant deficiencies in internal control reported for major federal programs?**	No
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified
(d)(1)(vi)	**Are there any reportable findings under 2 CFR § 200.516(a)?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster (IDEA)
(d)(1)(viii)	**Dollar Threshold: Type A\B Programs**	Type A: > $ 750,000 Type B: all others
(d)(1)(ix)	**Low Risk Auditee under 2 CFR § 200.520?**	No

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

None

3. FINDINGS FOR FEDERAL AWARDS

Failure to Properly Maintain Federal Capital Assets

Finding Number:	**2019-001**
CFDA Number and Title:	**Special Education Cluster (IDEA)**
	Special Education Grants to States (CFDA # 84.027)
	Special Education Preschool Grants (CFDA # 84.173)
Federal Award Identification Number / Year:	**H027A170111 and H173A170119**
	2019 and 2018
Federal Agency:	**United States Department of Education**
Compliance Requirement:	**Equipment and Real Property Management**
Pass-Through Entity:	**Ohio Department of Education**
Repeat Finding from Prior Audit?	**No**

Noncompliance and Material Weakness

2 C.F.R. § 3474.1 gives regulatory effect to the Department of Education for **2 C.F.R. § 200.313(d)(1)** which states, in part, property records “must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the Federal Award Identification Number (FAIN)), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.”

2 C.F.R. § 3474.1 gives regulatory effect to the Department of Education for **2 C.F.R. § 200.313(d)(2)** which states, “a physical inventory of the property must be taken and the results reconciled with the property records at least once every 2 years.”

Due to a failure of internal controls, two out of three (67%) assets purchased under the Special Education Cluster selected for physical inspection were included in the Center's capital asset records; however, the assets were no longer owned by the Center.

The Center should establish and implement policies and procedures to properly track and dispose of assets purchased with Federal funds in accordance with **2 C.F.R. § 200.313(d)**. Failure to do so could result in the Center tracking an incorrect number and/or amount of assets and misuse going undetected in a timely manner. Additionally, physical inventories should be performed, at a minimum, once every two years to verify that assets held per the capital asset listing actually exist. This will help detect errors, fraud, theft or omissions.

Officials’ Response:
See Corrective Action Plan on page 75

MCESC MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

CORRECTIVE ACTION PLAN

2 CFR § 200.511(c)

June 30, 2019

Finding Number:	2019-001
Planned Corrective Action:	We will be speaking to all building level secretaries to reinforce the process of removing capital assets from inventory.
Anticipated Completion Date:	June 20, 2020
Responsible Contact Person:	Christopher Fox, Treasurer

This page intentionally left blank.

OHIO AUDITOR OF STATE
KEITH FABER

MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER

MONTGOMERY COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 19, 2020