



OHIO AUDITOR OF STATE
KEITH FABER



**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY
JUNE 30, 2022**

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 CUYAHOGA COUNTY
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INDEPENDENT AUDITOR'S REPORT

Educational Service Center of Northeast Ohio
Cuyahoga County
6393 Oak Tree Boulevard
Independence, Ohio 44131

To the Board of Education:

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Northeast Ohio, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Educational Service Center of Northeast Ohio, Cuyahoga County, Ohio as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Service Center, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during 2022, the Service Center modified its approach related to the eligibility requirements of certain grants resulting in restatements at July 1, 2021 to governmental activities net position and Miscellaneous Federal Grants and Other Governmental Funds fund balances. We did not modify our opinion regarding this matter.

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Service Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Service Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual and the Schedule of Expenditures of Federal Awards 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2023, on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Service Center's 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 Service Center's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

March 24, 2023

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Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
Unaudited*

The management's discussion and analysis of the Educational Service Center of Northeast Ohio's (the Service Center) financial performance provides an overall review of the Service Center's financial activities for the fiscal year ended June 30, 2022. The intent of the management's discussion and analysis is to look at the Service Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the financial statements to enhance their understanding of the Service Center's financial performance.

Financial Highlights

Key financial highlights for 2022 include:

- In fiscal year 2022 total assets increased by \$6,906,544 and total liabilities decreased by \$52,219,335. The increase in assets is due to an increase in pooled cash and cash equivalents, intergovernmental receivables and capital assets. The decrease in liabilities is due to a significant decrease in net pension liability for fiscal year 2022.
- Total revenues increased by \$22,488,854 in fiscal year 2022 versus 2021 mainly due to an increase in charges for services. Total expenses decreased by \$2,432,694 due to adjustments for the net pension liability.

Using this Annual Financial Report

This annual report consists of two distinct series of financial statements and notes to those statements. These statements are organized so the reader can understand the Service 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 Service Center, presenting both an aggregate view of the Service 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 Service Center's most significant funds with all other non-major funds presented in total in one column. In the case of the Service Center, the general fund, local grants and miscellaneous federal grants special revenue funds are the most significant funds.

Reporting the Service Center as a Whole

Statement of Net Position and the Statement of Activities

While this document contains all the funds used by the Service Center to provide services, the view of the Service Center as a whole considers all financial transactions and asks the questions, "Are we in a better financial position this year than last?" and "Why?" or "Why not?". The *Statement of Net Position* and the *Statement of Activities* provide the basis for answering these questions. These statements include *all non-fiduciary assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. Accrual accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
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These two statements report the Service Center's *net position* and any changes in the net position. The change in net position is important because it tells the readers that, for the Service Center as a whole, the *financial position* of the Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

The *Statement of Net Position* and the *Statement of Activities* are represented by one type of activity, Governmental Activities. The Service Center's programs and services are reported here including instruction, support services, operation of non-instructional services and extracurricular activities.

Reporting the Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Service Center's major funds begins on page 10. Fund financial reports provide detailed information about the Service Center's major funds. The Service Center uses many funds to account for a multitude of financial transactions. However, the fund financial statements focus on the Service Center's most significant funds. The Service Center's major governmental funds are the general fund, local grants and miscellaneous federal grants special revenue funds.

Governmental Funds Most of the Service 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 Service 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 benefit of parties outside the Service Center. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the Service Center's programs. These funds use the accrual basis of accounting.

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
Unaudited*

The Service Center as a Whole

You may recall that the *Statement of Net Position* provides the perspective of the Service Center as a whole. Table 1 provides a summary of the Service Center's net position for 2022 compared to 2021:

(Table 1)
Net Position

	Governmental Activities		Change
	2022	2021	
Assets			
Current and Other Assets	\$38,746,102	\$32,889,316	\$5,856,786
Net OPEB Asset	5,814,521	5,039,594	774,927
Capital Assets, Net	10,100,965	9,826,134	274,831
<i>Total Assets</i>	<u>54,661,588</u>	<u>47,755,044</u>	<u>6,906,544</u>
Deferred Outflows of Resources			
Pension	20,086,128	17,591,217	2,494,911
OPEB	2,572,508	3,099,802	(527,294)
<i>Deferred Outflows of Resources</i>	<u>22,658,636</u>	<u>20,691,019</u>	<u>1,967,617</u>
Liabilities			
Current and Other Liabilities	8,074,831	7,573,060	(501,771)
Long-Term Liabilities:			
Due Within One Year	1,665,199	1,667,694	2,495
Due in More than One Year:			
Net Pension Liability	56,812,550	108,012,635	51,200,085
Net OPEB Liability	10,385,499	11,948,970	1,563,471
Other Amounts Due in More than One Year	474,936	429,991	(44,945)
<i>Total Liabilities</i>	<u>77,413,015</u>	<u>129,632,350</u>	<u>52,219,335</u>
Deferred Inflows of Resources			
Lease	2,839,123	186,442	(2,652,681)
Pension	48,022,361	6,113,183	(41,909,178)
OPEB	14,950,830	14,356,643	(594,187)
<i>Deferred Inflows of Resources</i>	<u>65,812,314</u>	<u>20,656,268</u>	<u>(45,156,046)</u>
Net Position			
Net Investment in Capital Assets	9,523,209	9,166,134	357,075
Restricted	636,767	1,207,164	(570,397)
Unrestricted (Deficit)	(76,065,081)	(92,215,853)	16,150,772
<i>Total Net Position</i>	<u>(\$65,905,105)</u>	<u>(\$81,842,555)</u>	<u>\$15,937,450</u>

The net pension liability (NPL) is the largest liability reported by the Service Center at June 30, 2022. GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Service

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
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Center is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

Net position increased from fiscal year 2021 due to a decrease in total liabilities, specifically the net pension liability. Total assets increased due to an increase in cash as a result of revenues outpacing expenditures for the year. Total liabilities decreased due to a significant decrease in net pension liability as a result from changes in assumptions and benefit terms related to pensions.

Table 2 shows the change in net position for fiscal year 2022 as compared to fiscal year 2021.

(Table 2)
Change in Net Position
Governmental Activities

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$84,260,280	\$62,057,353	\$22,202,927
Operating Grants and Contributions	<u>20,083,458</u>	<u>17,943,299</u>	<u>2,140,159</u>
<i>Total Program Revenues</i>	<u>104,343,738</u>	<u>80,000,652</u>	<u>24,343,086</u>
<i>General Revenues:</i>			
Grants and Entitlements	7,034,602	6,947,850	86,752
Investment Earnings	(129,526)	35,749	(165,275)
Unrestricted Contributions and Donations	0	50	(50)
Miscellaneous	<u>2,211,878</u>	<u>3,987,537</u>	<u>(1,775,659)</u>
<i>Total General Revenues</i>	<u>9,116,954</u>	<u>10,971,186</u>	<u>(1,854,232)</u>
Total Revenues	<u>\$113,460,692</u>	<u>\$90,971,838</u>	<u>\$22,488,854</u>

(continued)

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
Unaudited*

(Table 2)
Change in Net Position
Governmental Activities (continued)

	2022	2021	Change
Program Expenses			
Instruction	\$49,260,095	\$45,717,213	(\$3,542,882)
Support Services:			
Pupil and Instructional Staff	18,936,443	23,155,336	4,218,893
Board of Education, Administration, Fiscal and Business	14,916,108	17,257,598	2,341,490
Operation and Maintenance of Plant	2,301,142	2,012,829	(288,313)
Pupil Transportation	23,393	36,908	13,515
Central	1,746,740	1,358,426	(388,314)
Operation of Non-Instructional Services	10,169,591	10,307,094	137,503
Extracurricular Activities	149,401	86,792	(62,609)
Interest and Fiscal Charges	20,329	23,740	3,411
<i>Total Program Expenses</i>	<u>97,523,242</u>	<u>99,955,936</u>	<u>2,432,694</u>
Increase (Decrease) in Net Position	15,937,450	(9,170,540)	25,107,990
<i>Net Position Beginning of Year</i>	<u>(81,842,555)</u>	<u>(72,672,015)</u>	<u>(9,170,540)</u>
<i>Net Position End of Year</i>	<u><u>(\$65,905,105)</u></u>	<u><u>(\$81,842,555)</u></u>	<u><u>(\$15,937,450)</u></u>

Governmental Activities

The largest component of the decrease in program expenses results from changes in assumptions and benefit terms related to pensions in the prior year. For the prior year, STRS adopted certain assumption changes, including a reduction in their discount rate, and also voted to suspend cost of living adjustments (COLA). As a result of these changes, pension expense decreased from \$10,138,486 in fiscal year 2021 to \$3,131,935 in fiscal year 2022.

A review of Table 2 illustrates the concept of sound fiscal management in the government sector. The Service Center's concept of bringing its fiscal agencies under a common campus to align services, share resources and create economies of scale does work. A willingness to honestly assess programs and discontinue unprofitable ones is key to long term operations. Flexibility and adherence to basic management principles is key to continued successful operations.

The *Statement of Activities* shows the cost of program services and the charges for services and grants offsetting those services for governmental activities. Table 3 shows the total cost of services and the net cost of services. The \$6,820,496 *Net Cost of Services 2022* tells the reader that overall these services are self-supporting and do not rely on unrestricted State entitlements and unrestricted net position to operate this fiscal year.

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
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(Table 3)
Governmental Activities

	Total Cost of Services 2022	Net Cost of Services 2022	Total Cost of Services 2021	Net Cost of Services 2021
Instruction	\$49,260,095	\$15,019,237	\$45,717,213	(\$2,580,289)
Support Services:				
Pupil and Instructional Staff	18,936,443	5,537,100	23,155,336	(2,588,290)
Board of Education, Administration, Fiscal and Business	14,916,108	(13,855,632)	17,257,598	(14,637,439)
Operation and Maintenance of Plant	2,301,142	457,508	2,012,829	(272,336)
Pupil Transportation	23,393	8,137	36,908	(36,908)
Central	1,746,740	169,434	1,358,426	(1,254,295)
Operation of Non-Instructional Services	10,169,591	(495,214)	10,307,094	1,519,675
Extracurricular Activities	149,401	255	86,792	(81,662)
Interest and Fiscal Charges	20,329	(20,329)	23,740	(23,740)
<i>Totals</i>	<u>\$97,523,242</u>	<u>\$6,820,496</u>	<u>\$99,955,936</u>	<u>(\$19,955,284)</u>

The Service Center's Funds

Information about the Service Center's major funds starts on page 15. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$112,007,682 and total expenditures of \$111,733,551, leaving a fund balance at fiscal year-end of \$18,921,090.

The general fund and miscellaneous federal grants special revenue fund had increases in fund balance of \$3,224,735 and \$451,852 respectively. The local grants special revenue fund had a decrease in fund balance of \$2,329,937. In comparison, all governmental funds had a total increase of \$550,581.

The general fund is the primary source of start up funds for many of the other grant activities. Fast response to client needs and starting up an activity before initial funding arrives is what separates the Service Center from its competition. The downside to such a philosophy is that the Service Center will be an early barometer to cutbacks and difficult economic times. The nature of school employment law does make the Service Center vulnerable to second-guessing the best management approach to riding out the downturn.

The local grants special revenue fund had a decrease in fund balance of \$2,329,937. The decrease in fund balance is due to expenditures outpacing revenues for the fiscal year.

The miscellaneous federal grants special revenue fund had an increase in fund balance of \$451,852. The increase in fund balance is due to the timing of grant revenue from the Ohio Department of Education and Ohio Department of Health.

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2022
Unaudited*

Capital Assets

Table 4 shows fiscal year 2022 balances compared to fiscal year 2021. More detailed information is presented in Note 9 of the notes to the basic financial statements.

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

	Governmental Activities	
	2022	2021
Land	\$549,004	\$549,004
Buildings and Improvements	8,703,393	8,944,102
Furniture and Equipment	618,193	333,028
Intangible Right to Use Lease - Equipment	230,375	0
<i>Total Capital Assets</i>	<u>\$10,100,965</u>	<u>\$9,826,134</u>

The increase in capital assets is mainly due to additions outpacing depreciation during the fiscal year.

Debt

At the end of fiscal year 2022, the outstanding balance on certificates of participation was \$335,000. More detailed information is presented in Note 13 of the notes to the basic financial statement.

Current Financial Related Activities

The Service Center continues to be financially stable and is able to continue to offer the programs needed to enrich and service the various school districts. The Board and administration closely monitor its revenues and expenditures in accordance with Board policy.

The Service Center delivers valuable programs to its clients and school districts, which preserve positive relationships with the school districts and clients.

Beginning July 1, 2015, the Service Center expanded its service footprint from thirty-one school districts located in Cuyahoga County to include an additional fifteen school districts located in Geauga, Lake, Lorain, Portage and Summit Counties. As part of this expansion the Service Center has also begun to expand several of its key service and program areas, including personnel, substitute management, professional development, professional learning networks and technology.

While many outside factors can and will affect the economy and base operations, the Service Center is committed to provide the best possible services and be fiscally responsible now and in future years. The Service Center is constantly evaluating its programs and expanding where it can provide cost effective services to school districts. Cost effective services to districts is the Service Center's guiding mission. If the Service Center does not provide efficiency, there is no reason for a district to contract with the Service Center. Trust, flexibility and responsiveness are key to the Service Center's success.

Educational Service Center of Northeast Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2022

Unaudited

Contacting the Service Center's Financial Management

This financial report provides our citizen's, taxpayers, and investors and creditors with a general overview of the Service Center's finances and to show the Service Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Bruce Basalla, Treasurer at the Service Center, 6393 Oak Tree Boulevard., Independence, Ohio 44131.

Educational Service Center of Northeast Ohio

Statement of Net Position

June 30, 2022

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$25,068,677
Accrued Interest Receivable	6,683
Accounts Receivable	291,542
Intergovernmental Receivable	10,415,904
Lease Receivable	2,714,089
Prepaid Items	154,327
Due From Custodial Funds	94,880
Net OPEB Asset (See Note 18)	5,814,521
Nondepreciable Capital Assets	549,004
Depreciable Capital Assets, Net	<u>9,551,961</u>
<i>Total Assets</i>	<u>54,661,588</u>
Deferred Outflows of Resources	
Pension	20,086,128
OPEB	<u>2,572,508</u>
<i>Total Deferred Outflows of Resources</i>	<u>22,658,636</u>
Liabilities	
Accounts Payable	1,021,935
Accrued Wages and Benefits	4,637,516
Intergovernmental Payable	1,529,203
Accrued Interest Payable	784
Matured Compensated Absences Payable	21,533
Claims Payable	863,860
Long-Term Liabilities:	
Due Within One Year	1,665,199
Due In More Than One Year:	
Net Pension Liability (See Note 17)	56,812,550
Net OPEB Liability (See Note 18)	10,385,499
Other Amounts Due in More Than One Year	<u>474,936</u>
<i>Total Liabilities</i>	<u>77,413,015</u>
Deferred Inflows of Resources	
Leases	2,839,123
Pension	48,022,361
OPEB	<u>14,950,830</u>
<i>Total Deferred Inflows of Resources</i>	<u>65,812,314</u>
Net Position	
Net Investment in Capital Assets	9,523,209
Restricted for:	
Capital Outlay	299
Unclaimed Monies	151,769
Other Purposes	484,699
Unrestricted (Deficit)	<u>(76,065,081)</u>
<i>Total Net Position</i>	<u><u>(\$65,905,105)</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Activities

For the Fiscal Year Ended June 30, 2022

	Program Revenues			Net Revenue (Expense) and Changes in Net Position
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental Activities				
Instruction:				
Regular	\$27,400,923	\$20,199,652	\$4,510,482	(\$2,690,789)
Special	21,456,601	38,006,256	981,543	17,531,198
Vocational	386,817	581,399	0	194,582
Other	15,754	0	0	(15,754)
Support Services:				
Pupil	10,832,576	12,467,779	1,772,255	3,407,458
Instructional Staff	8,103,867	5,317,593	4,915,916	2,129,642
Board of Education	39,350	0	0	(39,350)
Administration	13,167,586	0	1,060,476	(12,107,110)
Fiscal	1,636,850	0	0	(1,636,850)
Business	72,322	0	0	(72,322)
Operation and Maintenance of Plant	2,301,142	2,614,906	143,744	457,508
Pupil Transportation	23,393	26,709	4,821	8,137
Central	1,746,740	812,208	1,103,966	169,434
Operation of Non-Instructional Services	10,169,591	4,084,122	5,590,255	(495,214)
Extracurricular Activities	149,401	149,656	0	255
Interest and Fiscal Charges	20,329	0	0	(20,329)
<i>Totals</i>	<u>\$97,523,242</u>	<u>\$84,260,280</u>	<u>\$20,083,458</u>	<u>6,820,496</u>
 General Revenues				
Grants and Entitlements not Restricted to Specific Programs				7,034,602
Investment Earnings				(129,526)
Miscellaneous				2,211,878
<i>Total General Revenues</i>				<u>9,116,954</u>
Change in Net Position				15,937,450
<i>Net Position Beginning of Year - Restated (See Note 3)</i>				<u>(81,842,555)</u>
<i>Net Position End of Year</i>				<u>(\$65,905,105)</u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

*Balance Sheet
Governmental Funds
June 30, 2022*

	General	Local Grants	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$16,205,036	\$0	\$655,101	\$1,863,266	\$18,723,403
Receivables:					
Accrued Interest	6,683	0	0	0	6,683
Accounts	291,542	0	0	0	291,542
Intergovernmental	5,879,886	1,572,878	1,404,352	1,558,788	10,415,904
Lease Receivable	2,714,089	0	0	0	2,714,089
Interfund Receivable	5,438,196	0	0	0	5,438,196
Due from Custodial Funds	94,880	0	0	0	94,880
Prepaid Items	154,327	0	0	0	154,327
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	151,769	0	0	0	151,769
<i>Total Assets</i>	<u>\$30,936,408</u>	<u>\$1,572,878</u>	<u>\$2,059,453</u>	<u>\$3,422,054</u>	<u>\$37,990,793</u>
Liabilities					
Accounts Payable	\$296,114	\$580,307	\$137,227	\$8,287	\$1,021,935
Accrued Wages and Benefits	4,119,385	141,237	48,983	327,911	4,637,516
Intergovernmental Payable	828,132	544,329	97,096	59,646	1,529,203
Matured Compensated Absences	21,533	0	0	0	21,533
Interfund Payable	0	1,046,864	1,459,000	2,932,332	5,438,196
<i>Total Liabilities</i>	<u>5,265,164</u>	<u>2,312,737</u>	<u>1,742,306</u>	<u>3,328,176</u>	<u>12,648,383</u>
Deferred Inflows of Resources					
Unavailable Revenue	835,194	402,278	791,292	1,553,433	3,582,197
Leases	2,839,123	0	0	0	2,839,123
<i>Total Deferred Inflows of Resources</i>	<u>3,674,317</u>	<u>402,278</u>	<u>791,292</u>	<u>1,553,433</u>	<u>6,421,320</u>
Fund Balances					
Nonspendable	306,096	0	0	0	306,096
Restricted	0	0	0	35,921	35,921
Assigned	11,108,690	0	0	0	11,108,690
Unassigned (Deficit)	10,582,141	(1,142,137)	(474,145)	(1,495,476)	7,470,383
<i>Total Fund Balances (Deficit)</i>	<u>21,996,927</u>	<u>(1,142,137)</u>	<u>(474,145)</u>	<u>(1,459,555)</u>	<u>18,921,090</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$30,936,408</u>	<u>\$1,572,878</u>	<u>\$2,059,453</u>	<u>\$3,422,054</u>	<u>\$37,990,793</u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2022*

Total Governmental Fund Balances	\$18,921,090
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*Amounts reported for governmental activities in the
 statement of net position are different because:*

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,100,965
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Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Intergovernmental	2,604,098
Tuition and Fees	61,450
Charges for Services	904,509
Rentals	500
Reimbursable Expenses	11,640
Total	3,582,197

The internal service fund is used by management to charge the costs of medical insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position.	5,329,645
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In the statement of net position, interest is accrued on outstanding certificates of participation, whereas in governmental funds, an interest expenditure is reported when due.	(784)
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Certificates of Participation	(335,000)
Lease Payable	(242,756)
Compensated Absences	(1,562,379)
Total	(2,140,135)

The net pension liability and net OPEB liability/asset is not due and payable in the current period; therefore, the asset, liability and related deferred inflows/outflows are not reported in the governmental funds:	
Deferred Outflows - Pension	20,086,128
Deferred Inflows - Pension	(48,022,361)
Net Pension Liability	(56,812,550)
Deferred Outflows - OPEB	2,572,508
Deferred Inflows - OPEB	(14,950,830)
Net OPEB Liability	(10,385,499)
Net OPEB Asset	5,814,521
Total	(101,698,083)

<i>Net Position of Governmental Activities</i>	<u><u>(\$65,905,105)</u></u>
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See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2022

	General	Local Grants	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental	\$7,670,727	\$8,125,463	\$3,961,226	\$6,235,723	\$25,993,139
Interest	(129,526)	0	0	0	(129,526)
Tuition and Fees	27,559,921	0	0	0	27,559,921
Rentals	581,776	0	0	134,787	716,563
Charges for Services	45,464,866	9,672,819	0	16,747	55,154,432
Leases	501,275	0	0	0	501,275
Miscellaneous	789,339	1,025,000	0	397,539	2,211,878
<i>Total Revenues</i>	<u>82,438,378</u>	<u>18,823,282</u>	<u>3,961,226</u>	<u>6,784,796</u>	<u>112,007,682</u>
Expenditures					
Current:					
Instruction:					
Regular	15,081,915	12,057,333	0	330,039	27,469,287
Special	28,793,889	0	0	383,318	29,177,207
Vocational	601,212	0	0	0	601,212
Student Intervention Services	11,528	4,226	0	0	15,754
Support Services:					
Pupil	12,550,096	10,241	724,208	874,247	14,158,792
Instructional Staff	5,221,347	215,681	97,470	3,843,602	9,378,100
Board of Education	39,350	0	0	0	39,350
Administration	12,282,702	68,295	197,337	1,192,531	13,740,865
Fiscal	1,629,926	8,443	0	0	1,638,369
Business	42,095	1,965	0	33,490	77,550
Operation and Maintenance of Plant	2,186,838	0	0	171,709	2,358,547
Pupil Transportation	27,734	0	0	3,956	31,690
Central	836,754	0	789,541	132,341	1,758,636
Operation of Non-Instructional Services	6,650	8,720,368	1,700,818	264,849	10,692,685
Extracurricular Activities	137,253	0	0	11,802	149,055
Capital Outlay	0	66,667	0	0	66,667
Debt Service:					
Principal Retirement	33,694	0	0	325,000	358,694
Interest and Fiscal Charges	7,110	0	0	13,981	21,091
<i>Total Expenditures</i>	<u>79,490,093</u>	<u>21,153,219</u>	<u>3,509,374</u>	<u>7,580,865</u>	<u>111,733,551</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	2,948,285	(2,329,937)	451,852	(796,069)	274,131
Other Financing Sources					
Inception of Lease Payable	276,450	0	0	0	276,450
<i>Net Change in Fund Balances</i>	3,224,735	(2,329,937)	451,852	(796,069)	550,581
<i>Fund Balances (Deficit) Beginning of Year</i> <i>- Restated (See Note 3)</i>	<u>18,772,192</u>	<u>1,187,800</u>	<u>(925,997)</u>	<u>(663,486)</u>	<u>18,370,509</u>
<i>Fund Balances (Deficit) End of Year</i>	<u>\$21,996,927</u>	<u>(\$1,142,137)</u>	<u>(\$474,145)</u>	<u>(\$1,459,555)</u>	<u>\$18,921,090</u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2022*

Net Change in Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the statement of activities are different because: \$550,581

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Asset Additions	763,439	
Current Year Depreciation	(486,967)	
Total	276,472	276,472

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,641)

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

Intergovernmental	1,124,921	
Tuition and Fees	(120,260)	
Rentals	500	
Charges for Services	447,849	
Reimbursable Expenses	(33,254)	
Total	1,419,756	1,419,756

Inception of lease payable in the governmental funds increases long-term liabilities in the statement of net position are not reported as revenues in the statement of activities. (276,450)

Repayment of certificates of participation and lease payable principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 358,694

In the governmental funds, interest is expensed when due, whereas interest is accrued in the statement of net position and is not reported as an expense in the statement of activities. 762

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (124,694)

The internal service fund used by management is not reported in the Service Center statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 731,235

Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows.

Pension	8,653,883	
OPEB	193,832	
Total	8,847,715	8,847,715

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities.

Pension	3,131,935	
OPEB	1,023,085	
Total	4,155,020	4,155,020

Change in Net Position of Governmental Activities \$15,937,450

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Fund Net Position

Internal Service Fund

June 30, 2022

Assets	
Equity in Pooled Cash and Cash Equivalents	\$6,193,505
Liabilities	
Claims Payable	<u>863,860</u>
Net Position	
Unrestricted	<u><u>\$5,329,645</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Internal Service Fund
For the Fiscal Year Ended June 30, 2022*

Operating Revenues	
Charges for Services	<u>\$11,168,342</u>
Operating Expenses	
Purchased Services	2,578,392
Claims	<u>7,858,715</u>
<i>Total Operating Expenses</i>	<u>10,437,107</u>
<i>Change in Net Position</i>	731,235
<i>Net Position Beginning of Year</i>	<u>4,598,410</u>
<i>Net Position End of Year</i>	<u><u>\$5,329,645</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Cash Flows

Internal Service Fund

For the Fiscal Year Ended June 30, 2022

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Interfund Services Provided	\$11,168,342
Cash Payments for Claims	(7,801,855)
Cash Payments for Services	<u>(2,578,392)</u>

Net Increase in Cash and Cash Equivalents 788,095

Cash and Cash Equivalents Beginning of Year 5,405,410

Cash and Cash Equivalents End of Year \$6,193,505

***Reconciliation of Operating Income to
Net Cash Provided by Operating Activities***

Operating Income \$731,235

Adjustments

Increase in Current Liabilities	
Claims Payable	<u>56,860</u>

Net Cash Provided by Operating Activities \$788,095

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Fiduciary Net Position

Custodial Fund

June 30, 2022

	<u>Custodial</u>
Assets	
Intergovernmental Receivable	\$94,880
Liabilities	
Due to Governmental Funds	<u>94,880</u>
Net Position	
Restricted for Individuals, Organizations and Other Governments	<u><u>\$0</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Changes in Fiduciary Net Position

Custodial Fund

For the Fiscal Year Ended June 30, 2022

Additions	
Collections for Other Organizations	\$1,232,324
Deletions	
Distributions to Other Organizations	<u>1,232,324</u>
<i>Change in Net Position</i>	0
<i>Net Position Beginning of Year</i>	<u>0</u>
<i>Net Position End of Year</i>	<u><u>\$0</u></u>

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

Note 1 – Description of the Service Center

In 1914, the Educational Service Center of Northeast Ohio (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts throughout northeast Ohio.

The Service Center operates under a locally-elected five-member Governing Board form of government and provides educational services as mandated by State or federal agencies to one exempted village, to three local and forty-one city school districts and two career centers. The Board controls the Service Center's staff who provide services that impact 200,000 plus students 0 to 18 years of age attending numerous school districts. The Service Center's special education services also draw students from school districts throughout northeast Ohio, sometimes from as far away as Toledo and Columbus.

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 Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Service Center. For the Service Center, this includes the agencies and departments that provide the following services: general operations and related special education, supervisory, administrative and fiscal activities of the Service Center.

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

The Service Center participates in three jointly governed organizations. These organizations are Connect, Positive Education Program and the Portage Area School Consortium. These organizations are presented in Note 14 in the notes to the basic financial statements.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the 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 Service Center's accounting policies are described as follows.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

Basis of Presentation

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

Government-wide Financial Statements The statement of net position and the statement of activities display information about the Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. These statements usually distinguish between those activities that are governmental and those that are considered business-type. The Service Center, however, has only governmental activities.

The statement of net position presents the financial condition of the governmental activities of the Service Center at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Service Center, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental activity is self-financing or draws from the general revenues of the Service Center.

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

Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions of the Service Center typically 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 and liabilities and deferred inflows of resources is reported as fund balance. The Service Center has the following major governmental funds.

General Fund The general fund is the operating fund of the Service Center and is used to account for and report all financial resources except those required to be accounted for and reported in another fund.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

Local Grants Fund The local grants special revenue fund accounts for the proceeds of specific revenue sources, except for state and federal grants that are legally restricted to expenditures for specified purposes.

Miscellaneous Federal Grants Fund The miscellaneous federal grants special revenue fund accounts for various monies received through state agencies from the federal government or directly from the federal government which are not classified elsewhere.

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

Proprietary Fund Type Proprietary funds focus on the determination of operating income, changes in net position, financial position and cash flows and are classified as either enterprise or internal service. The Service Center only has one internal service fund.

Internal Service Fund The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the Service Center on a cost-reimbursement basis. The internal service fund accounts for payments, administrative costs and reserves of the Service Center's self-insured medical coverage.

Fiduciary Fund Type Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangements that has certain characteristics. Custodial Funds are used to report fiduciary activities that are not required to be reported in a trust fund.

The Service Center's fiduciary funds are custodial funds. Custodial funds are used to account for assets held by the Service Center as fiscal agent for other organizations.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the Service Center are included on the statement of net position. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

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

Like the government-wide statements, all proprietary and fiduciary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

of fund net position. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

For proprietary funds, the statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds present a statement of changes in fiduciary net position which reports additions to and deductions from the custodial fund.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences between the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred outflows/inflows 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. 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 Service Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, 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 Service Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Service Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: intergovernmental, interest, tuition and fees, rentals, charges for services, extracurricular activities and contributions and donations.

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 assets that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 17 and 18.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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 assets that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Service Center, deferred inflows of resources include pension, OPEB, leases and unavailable revenue. The deferred inflow for leases is related to the leases receivable and is being recognized as lease revenue in a systematic and rational manner over the term of the lease. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the Service Center, unavailable revenue includes intergovernmental, tuition and fees, rentals, charges for services and reimbursable expenditures. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities found on page 16. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 17 and 18)

Pensions/Other Postemployment Benefits (OPEB)

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

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 cost, such as depreciation and amortization, are not recognized in governmental funds.

Cash and Cash Equivalents

To improve cash management, cash received by the Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents."

During fiscal year 2022, investments were limited to mutual funds, commercial paper, United States Treasury notes, federal farm credit bonds, federal home loan bank bonds, federal national mortgage association bonds, federal home loan mortgage corporation notes, nonnegotiable certificates of deposit and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on quoted market price or current share. The fair value of investments related to Service Center funds declined during 2022 resulting in negative investment earnings of \$129,526.

During fiscal year 2022, the Service Center invested in STAR Ohio. STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants. The Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

For fiscal year 2022, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, twenty-four hours advance notice is appreciated for deposits and withdrawals of \$100 million or more. STAR Ohio reserves the right to limit the transactions to \$250 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$250 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Board has, by resolution, identified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2022 amounted to (\$129,526), which includes (\$17,282) assigned from other Service Center funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Service Center are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months not purchased from the pool are reported as investments.

Restricted Assets

Assets are reported as restricted when limitations on the use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or law of other governments or imposed by law through constitutional provisions. Restricted assets in the general fund represent money required by State statute to be set aside for unclaimed monies.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2022, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Capital Assets

The only capital assets of the Service Center are general capital assets. General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the governmental-wide statement of net position but are not reported in the fund financial statements.

All capital assets (except for intangible right-to-use lease assets which are discussed below) are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Service Center maintains a capitalization threshold of five hundred dollars. The Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated except for land. 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:

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

Description	Estimated Lives
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years

The Service Center is reporting intangible right to use assets related to leased equipment. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, these intangible assets are being amortized in a systematic and rational manner over the shorter of the lease term or the useful life of the underlying asset.

Interfund Balances

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

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 Service Center will compensate the employees for the benefits through paid time off or some other means. The Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Service 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 Service Center’s termination policy. The Service Center records a liability for accumulated unused sick leave for classified, certified and administrative employees after ten years of current service with the Service Center.

The entire compensated absence liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditure to the extent payments come due each period upon the occurrence of employee resignations and retirements. The amounts are recorded in the account “Matured Compensated Absences Payable” in the funds from which the employee who has accumulated unpaid leave is paid.

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, claims and judgments, 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. 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. Certificates of participation and leases are recognized as a liability on the governmental fund financial statements when due.

Educational Service Center of Northeast Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022*

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include Title VI_B, Tile III, Title I, preschool disabilities, elementary and secondary school emergency relief and governor's emergency education relief.

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

Fund Balance

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

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

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

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

Assigned Amounts in the assigned fund balance classification are intended to be used by the Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance includes the remaining amount that is not restricted or committed. These assigned balances are established by the Service Center Governing Board. In the general fund, assigned amounts represent intended uses established by policies and authorized purchase commitments by the Service Center Governing Board or Service Center official delegated that authority by resolution or by State Statue. State statute authorizes the Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated. The Governing Board assigned fund balance for the positive education programs.

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

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Service Center, these revenues are charges for services for the self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

Estimates

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

Note 3 – Change in Accounting Principles and Restatement of Fund Balances and Net Position

Change in Accounting Principles

For fiscal year 2022, the Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* and related guidance from (GASB) Implementation Guide No. 2019-3, *Leases*.

GASB Statement 87 enhances the relevance and consistency of information of the government's leasing activities. It establishes requirements for lease accounting based on the principle that leases are financings of the right to use an underlying asset. A lessee is required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. These changes were incorporated in the Service Center's 2022 financial statements. The Service Center recognized \$2,760,573 in leases receivable at July 1, 2021; however, this entire amount was offset by the deferred inflows related to leases. The Service Center also recognized deferred inflows of \$186,442 related to a lease receivable that was prepaid.

The Service Center is also implementing *Implementation Guide No. 2020-1*, GASB Statement No. 92 – *Omnibus 2020*, and GASB Statement No. 97 -- *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. These changes were incorporated in the Service Center's 2022 financial statements; however, there was no effect on beginning net position/fund balance.

For fiscal year 2022, the Service Center modified its approach related to the eligibility requirements of certain Service Center grants resulting in the following restatements to fund balance/net position at July 1, 2021.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

Restatement of Fund Balances and Net Position

The implementation of GASB Statement No. 87 and the grant receivable restatement had the following effect on fund balance as of June 30, 2021:

	Governmental Funds				Total Governmental Funds
	General	Local Grants	Miscellaneous Federal Grants	Other Governmental Funds	
	Fund Balances (Deficit), June 30, 2021	\$18,958,634	\$1,187,800	(\$207,293)	
Adjustments:					
GASB 87	(186,442)	0	0	0	(186,442)
Intergovernmental Receivable	0	0	(97,122)	(933,089)	(1,030,211)
Unearned Revenue	0	0	(718,704)	(157,804)	(876,508)
Unavailable Revenue	0	0	97,122	881,562	978,684
Restated Fund Balances (Deficit), June 30, 2021	<u>\$18,772,192</u>	<u>\$1,187,800</u>	<u>(\$925,997)</u>	<u>(\$663,486)</u>	<u>\$18,370,509</u>

The implementation of GASB Statement No. 87 and the grant receivable restatement had the following effect on net position as of June 30, 2021:

	Governmental Activities
Net Position June 30, 2021	<u>(\$79,749,394)</u>
Adjustments:	
GASB 87	(186,442)
Intergovernmental Receivable	(1,030,211)
Unearned Revenue	(876,508)
Restated Net Position June 30, 2021	<u><u>(\$81,842,555)</u></u>

Note 4 - Fund Balances

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

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*Notes to the Basic Financial Statements
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Fund Balances	General	Local Grants	Miscellaneous Federal Grants	Other Governmental Funds	Total
<i>Nonspendable</i>					
Prepays	\$154,327	\$0	\$0	\$0	\$154,327
Unclaimed Monies	151,769	0	0	0	151,769
<i>Total Nonspendable</i>	306,096	0	0	0	306,096
<i>Restricted for</i>					
Capital Improvements	0	0	0	299	299
Various State Grants	0	0	0	35,622	35,622
<i>Total Restricted</i>	0	0	0	35,921	35,921
<i>Assigned to</i>					
Positive Education Programs	8,362,593	0	0	0	8,362,593
Purchases on Order:					
Instructional Services	29,129	0	0	0	29,129
Support Services	2,716,968	0	0	0	2,716,968
<i>Total Assigned</i>	11,108,690	0	0	0	11,108,690
<i>Unassigned (Deficit)</i>	10,582,141	(1,142,137)	(474,145)	(1,495,476)	7,470,383
<i>Total Fund Balances (Deficit)</i>	<u>\$21,996,927</u>	<u>(\$1,142,137)</u>	<u>(\$474,145)</u>	<u>(\$1,459,555)</u>	<u>\$18,921,090</u>

Note 5 – Fund Deficits

Fund balances at June 30, 2022, included the following individual fund deficits:

<i>Major Funds:</i>	
Local Grants	\$1,142,137
Miscellaneous Federal Grants	474,145
<i>Special Revenue Funds:</i>	
GEER	489,388
Title VI-B	380,430
LEP/Immigrant Title III Fund	102,695
Peer Assistance	145,172
ESSER	168,824
Media Center	168,010
Improving Teacher Quality	2,841
Preschool Disabilities	18,746
EMIS	7,585
SERRC	11,785

These deficits are the result of the recognition of payables in accordance with generally accepted accounting principles as well as short-term interfund loans from the General Fund needed for operations until the receipt of grant monies. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Educational Service Center of Northeast Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022*

Note 6 – Deposits and Investments

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

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

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

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

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

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

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At June 30, 2022, \$5,644,848 of the Service Center's total bank balance of \$14,362,121 was exposed to custodial credit risk because those deposits were uninsured and uncollateralized. The Service Center's financial institution participates in the Ohio Pooled Collateral System (OPCS) and was approved for a reduced collateral floor of 50 percent resulting in the uninsured and uncollateralized balance.

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

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

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

Investments

As of June 30, 2022, the Service Center had the following investments. All investments are in an internal investment pool.

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Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Fair Value - Level One Input:				
Mutual Funds	\$37,180	Daily	N/A	N/A
Fair Value - Level Two Inputs:				
Commercial Paper	2,470,693	Less than One Year	AA+	24.21 %
United States Treasury Notes	624,265	Less than Five years	N/A	6.12
Federal Farm Credit Bonds	244,970	Less than Four years	AA+	N/A
Federal Home Loan Bank Bonds	559,954	Less than Five years	AA+	5.49
Federal National Mortgage Association Bonds	199,550	Less than Four Years	AA+	N/A
Federal Home Loan Mortgage Corporation Notes	551,724	Less than Four Years	AA+	5.41
Total Fair Value - Level Two Inputs	4,651,156			
Net Asset Value Per Share:				
STAR Ohio	5,517,400	Average 35.3 Days	AAAm	N/A
<i>Totals</i>	<u>\$10,205,736</u>			

The Service Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the Service Center's recurring fair value measurements as of June 30, 2022. The Money Market Mutual Fund is measured at fair value and is valued using quoted market prices (Level 1 inputs). The Service Center's remaining investments, except STAR Ohio, measured at fair value are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

Interest Rate Risk. The Service Center has no investment policy that addresses the interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Service Center has no investment policy that addresses credit risk.

Concentration of Credit Risk. The Service Center places no limit on the amount it may invest in any one issuer.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

Note 7 – Receivables

Receivables at June 30, 2022, consisted of accounts, accrued interest, leases and intergovernmental grants. All receivables, except for leases, are considered collectible in full within one year.

A summary of the principal items of intergovernmental receivables follows:

Governmental Activities	<u>Amounts</u>
Positive Education Program	\$5,885,791
Local Grants	1,572,878
Miscellaneous Federal Grants	1,404,352
GEER	534,981
Title VI-B Grant	439,801
ESSER	207,300
Peer Assistance Grant	174,867
Title III Grant	102,697
Title I Grant	59,842
Preschool Disabilities Grant	21,725
E-Rate	7,585
Improving Teacher Quality Grant	<u>4,085</u>
Total Governmental Activities	<u><u>\$10,415,904</u></u>
Custodial Fund	
Ohio School's Council	<u><u>\$94,880</u></u>

Leases Receivable

The Service Center is reporting leases receivable of \$2,714,089 in the general fund at June 30, 2022. This amount represent the discounted future lease payments. This discount is being amortized using the interest method. For 2022, the Service Center recognized lease revenue of \$439,867 and interest revenue of \$93,477 in the general fund related to lease payments received. A description of the Service Center’s leasing arrangements is as follows:

Building Leases – The Service Center has entered into various lease agreements for office space with multiple companies at varying years and terms as follows:

<u>Company</u>	<u>Lease Commencement Date</u>	<u>Years</u>	<u>Lease Ending Date</u>	<u>Payment Method</u>
Connect	2019	9	2028	Monthly
Ameriprise	2015	15	2030	Monthly
OSHA	2013	13	2026	Monthly

Educational Service Center of Northeast Ohio

*Notes to the Basic Financial Statements
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A summary of future lease revenue is as follows:

Year	General	
	Principal	Interest
2023	\$421,925	\$83,046
2024	429,530	71,455
2025	444,485	58,737
2026	351,198	44,859
2027	346,682	29,731
2028-2032	720,269	16,144
	<u>\$2,714,089</u>	<u>\$303,972</u>

Note 8 – State Funding

The Service Center, under State law, provides services to local school districts within its territory. Each city, local and exempted village school district that entered into an agreement with the Service Center is considered to be provided services. The cost of the services is determined by formula under State law. The State Department of Education apportions the costs for all services among the Service Center's city, local and exempted 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 Service Center. The Service Center may provide additional services if the majority of local and client school districts agree to the services and the apportionment of the costs to all of the client school districts.

For fiscal year 2022, the Service Center also receives funding from the State Department of Education using a new funding model which is based on student count. Any change in funding will be subject to a phase in percentage of 16.67 percent for fiscal year 2022 and 33.33 percent for fiscal year 2023. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the 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 Service Center.

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

Note 9 – Capital Assets

Capital asset activity for the fiscal year ended June 30, 2022, was as follows:

Educational Service Center of Northeast Ohio

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	Balance 6/30/21	Additions	Deletions	Balance 6/30/22
Governmental Activities				
<i>Capital Assets, not being depreciated:</i>				
Land	\$549,004	\$0	\$0	\$549,004
<i>Capital Assets, being depreciated:</i>				
Buildings and Improvements	11,354,255	0	0	11,354,255
Furniture and Equipment	1,724,288	486,989	(611,076)	1,600,201
Intangible Right to Use Lease - Equipment**	0	276,450	0	276,450
<i>Total Capital Assets, being depreciated</i>	<u>13,078,543</u>	<u>763,439</u>	<u>(611,076)</u>	<u>13,230,906</u>
Less Accumulated Depreciation				
Buildings and Improvements	(2,410,153)	(240,709)	0	(2,650,862)
Furniture and Equipment	(1,391,260)	(200,183)	609,435	(982,008)
Intangible Right to Use Lease - Equipment**	0	(46,075)	0	(46,075)
Total Accumulated Depreciation	<u>(3,801,413)</u>	<u>(486,967) *</u>	<u>609,435</u>	<u>(3,678,945)</u>
Total Capital Assets, being depreciated, net	<u>9,277,130</u>	<u>276,472</u>	<u>(1,641)</u>	<u>9,551,961</u>
Governmental Activities Capital Assets, Net	<u>\$9,826,134</u>	<u>\$276,472</u>	<u>(\$1,641)</u>	<u>\$10,100,965</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$11,365
Support Services:	
Pupil	16,077
Instructional Staff	60,577
Administration	109,536
Fiscal	15,416
Central	16,287
Operation of Non-Instructional Services	346
Extracurricular Activities	214,413
Building Acquisition	42,950
Total Depreciation Expense	<u>\$486,967</u>

** Of the current year depreciation total of \$486,967, \$46,075 is presented as administration expense on the Statement of Activities related to the Service Center's intangible asset of copiers, which is included as an Intangible Right to Use Lease. With the implementation of Governmental Accounting Standards Board Statement No. 87, *Leases*, a lease meeting the criteria of this statement requires the lessee to recognize the lease liability and an intangible right to use asset.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

Note 10 – Interfund Transactions

Interfund balances at June 30, 2022, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General
<i>Governmental Activities</i>	
Major Fund:	
Local Grants	\$1,046,864
Miscellaneous Federal Grants	1,459,000
Other Governmental Funds:	
GEER	1,100,000
Title VI-B	803,000
Title III	250,000
Peer Assistance	242,000
ESSER	194,000
Media Center	168,010
Improving Teacher Quality	65,000
Title I	60,000
Preschool Disabilities	20,000
EMIS	19,000
SERRC	11,322
<i>Total Governmental Funds</i>	<u>\$5,438,196</u>
<i>Due from Custodial Funds</i>	<u>\$94,880</u>

The interfund payables are advances for grant monies that were not received by fiscal year end. The Service Center expects to receive the grant monies and repay the loans within the next fiscal year. The due from custodial funds is to cover insufficient funds in the custodial funds.

Note 11 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation, personal and sick leave benefits are derived from negotiated agreements and State laws. Classified employees earn up to twenty days of vacation per fiscal year, depending upon length of service. Vacation is paid upon separation. All employees earn sick leave at a rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 240 days for all employees.

Upon retirement, classified employees who have at least ten years of service credit with the State (the last ten years with the Service Center) are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days. Certified employees, administrators and supervisors who have at least ten years of service credit with the State (the last five years with the Service Center), are paid one-fourth of their accumulated sick days up to a maximum accumulation of 120 days.

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For the Fiscal Year Ended June 30, 2022*

Life Insurance

The Service Center provides life insurance and accidental death and dismemberment insurance to all employees who work over 20 hours in a week through the Met Life Insurance Company for in county employees and Guardian for out of county employees.

Other Employer Health Benefits

The Service Center provides prescription drug coverage through Healthspan, Anthem Blue Cross and Blue Shield, and CIGNA to all in county eligible employees. Vision insurance for in county employees is provided through Anthem Blue Cross and Blue Shield, and dental insurance is provided through MetLife. The Service Center provides prescription drug coverage and vision through Medical Mutual to all out of county eligible employees. Dental insurance for out of county employees is provided through Guardian.

Note 12 – Risk Management

Property and Liability

The Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2022, the Service Center contracted with the Markel Insurance Company for the following insurance:

Type	Amount
General Liability:	
Bodily Injury (Aggregate Limit)	\$1,000,000
Personal Injury/Advertising Liability	1,000,000
Products/Completed Operations	3,000,000
General Annual Aggregate	3,000,000
Fire Legal Liability	500,000
Sexual Misconduct & Molestation Liability	1,000,000
Medical Expense Limit	10,000
Property:	
Blanket Building and Contents	16,364,223
Educators' Legal Liability:	
Errors or Omissions Coverage Aggregate	2,000,000
Automobile Liability:	
Bodily Injury and Property Damage	1,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years and there have been no significant reductions in insurance coverage from last year.

Workers' Compensation

The Service Center pays a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. The firm of Sedgewick provides administrative, cost control and actuarial services to the Service Center.

Educational Service Center of Northeast Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022*

Employee Health Benefits

The Service Center is self-insured for medical insurance for in county employees. CIGNA, the third party administrator of the program, processes the claims for the Service Center's medical program. Monthly funding rates for medical insurance are \$2,816.35 for family coverage and \$951.47 for single coverage. The Service Center has stop loss coverage per family per year and a calculated aggregate maximum stop loss coverage for the 2022 plan year (July through June) that begins at 125 percent of expected claims.

The claims liability of \$863,860 reported in the self insurance fund at June 30, 2022 for employee medical coverage was estimated by an independent health actuary and is based on the requirements of Governmental Accounting Standards Board Statement No. 30 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

Changes in claims activity for fiscal years 2021 and 2022 are as follows:

	<u>Balance at Beginning of Year</u>	<u>Current Year Claims</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2021	\$486,000	\$8,963,422	\$8,642,422	\$807,000
2022	807,000	7,858,715	7,801,855	863,860

The Service Center has joined the Portage Area School Consortium for health insurance for out of county employees. The Portage Area School Consortium was established in 1981 so that educational-service providers could manage risk exposures and purchase necessary insurance coverages as a group. The consortium has organized into two distinct entities to facilitate its risk management operations; the two entities are the Property and Casualty Insurance Pool and the Health and Welfare Pool. The Service Center participates in the Health and Welfare Pool. The Health and Welfare Pool is to facilitate the management of risk associated with providing employee benefits, coverages such as health and accident insurance, disability insurance and life insurance. The Health and Welfare Pool, retains a third-party administrator. The Service Center pays all insurance premiums directly to the consortium. Although the Service Center does not participate in the day-to-day management of the consortium, one administrator serves as a trustee of the consortium's governing board as provided in the consortium's enabling authority. The Service Center recognizes that it retains a contingent liability to provide insurance coverage should the assets of the consortium become depleted, it is the opinion of management that the assets of the consortium are sufficient to meet its claims.

Educational Service Center of Northeast Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022*

Note 13 – Long-Term Obligations

The changes in the Service Center’s long-term obligations during fiscal year 2022 were as follows:

	Outstanding June 30, 2021	Additions	Deductions	Outstanding June 30, 2022	Due Within One Year
Certificates of Participation:					
2013 Certificates of Participation	\$580,000	\$0	\$285,000	\$295,000	\$295,000
2014 Certificates of Participation	80,000	0	40,000	40,000	40,000
<i>Total Certificates of Participation</i>	<u>660,000</u>	<u>0</u>	<u>325,000</u>	<u>335,000</u>	<u>335,000</u>
Other Long-term Obligations:					
Leases Payable	0	276,450	33,694	242,756	52,285
Compensated Absences	1,437,685	1,467,388	1,342,694	1,562,379	1,277,914
<i>Total Other Long-term Obligations</i>	<u>1,437,685</u>	<u>1,743,838</u>	<u>1,376,388</u>	<u>1,805,135</u>	<u>1,330,199</u>
Net Pension Liability					
SERS	38,629,785	0	17,077,738	21,552,047	0
STRS	69,382,850	0	34,122,347	35,260,503	0
<i>Total Net Pension Liability</i>	<u>108,012,635</u>	<u>0</u>	<u>51,200,085</u>	<u>56,812,550</u>	<u>0</u>
Net OPEB Liability					
SERS	11,948,970	0	1,563,471	10,385,499	0
Total	<u>\$122,059,290</u>	<u>\$1,743,838</u>	<u>\$54,464,944</u>	<u>\$69,338,184</u>	<u>\$1,665,199</u>

On May 22, 2013, the Service Center issued \$2,500,000 in certificates of participation for the purpose of various school improvements. The certificates were issued for a ten year period with a final maturity on December 1, 2022. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the Service Center. The COPs were issued through a series of annual leases with an initial lease term of five years which includes the right to renew for 15 successive one-year terms through fiscal year 2023 subject to annual appropriations. To satisfy the trustee agreements, the Service Center is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 2.75 percent. The Service Center has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture.

On September 24, 2014, the Service Center issued \$300,000 in certificates of participation for the purpose of expanding the Service Center parking lot. The lease certificates have a maturity date of December 1, 2023. The COPs were issued through a series of lease agreements and trust indentures in accordance with Section 3313.375 of the Ohio Revised Code. The COPs have been designated to be “qualified tax exempt obligations” within the meaning of 265(b)(3) of the Ohio Revised Code. In accordance with the lease terms, the project assets are leased to the Ohio School Building Leasing Corporation, and then subleased back to the Service Center. The COPs were issued through a series of annual leases with an initial lease term of five years with includes the right to renew for 15 successive one-year terms through fiscal year 2024 subject to annual appropriations. To satisfy the trustee agreements, the Service Center is required to make annual base rent payments, subject to the lease terms and appropriations, semi-annually. The base rent includes an interest component of 3.25 percent. The Service Center has the option to purchase the renovations on any lease payment date by paying the amount necessary to defease the indenture.

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For the Fiscal Year Ended June 30, 2022

Principal and interest requirements to retire the Certificates of Participation outstanding at June 30, 2022 are \$335,000 and \$4,706, respectively to mature in fiscal year 2023.

The certificates of participation will be paid from the general fund. The lease will be paid from the general fund. Compensated absences will be paid from the general fund, and the local grants, peer assistance, geer, improving teacher quality, title VI-B and miscellaneous federal grants special revenue 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 following funds: general, local grants, straight A, peer assistance, whole child learning, geer, title VI-B, title III, title I, preschool disabilities, improving teacher quality and miscellaneous federal grants. For additional information related to the net pension and net OPEB liabilities see Notes 17 and 18.

The Service Center has outstanding agreement to lease copiers. Due to the implementation of GASB Statement 87, these leases have met the criteria of leases thus requiring them to be recorded by the Service Center. The future lease payments were discounted based on the interest rate implicit in the lease or using the Service Center's incremental borrowing rate. This discount is being amortized using the interest method over the life of the lease. A summary of the principal and interest amounts for the remaining leases is as follows:

Year	Principal	Interest
2023	\$52,285	\$8,921
2024	54,455	6,751
2025	56,716	4,490
2026	59,070	2,136
2027	20,230	172
	<u>\$242,756</u>	<u>\$22,470</u>

Note 14 – Jointly Governed Organizations

Connect

Connect is a jointly governed organization among sixteen school districts in Cuyahoga County and the Service Center. The jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the districts supports Connect based on a per pupil charge. The Service Center contributed \$296,930 to Connect during the fiscal year 2022.

The Governing Board consists of superintendents of the Educational Service Centers of Northeast Ohio, Lorain County, and Medina County as well as the superintendent of the Ohio Schools Council. The degree of control exercised by any participating school district is limited to its representation of the Governing Board. The Board exercises total control over the operation of the organization including budgeting, appropriating, contracting and designating management. To obtain a copy of Connect's financial statements, write to the Service Center at 6393 Oak Tree Boulevard., Independence, Ohio 44131.

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Positive Education Program (PEP)

The PEP is a non-profit organization which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The Service Center contributed \$5,000 to the PEP in fiscal year 2022. PEP's twelve member governing board consists of: three superintendents elected from the participating school districts, three attorneys, one representative of the business community, one representative of the education community, and four consumers. The degree of control exercised by any participating school district is limited to its representation on the Board. To obtain a copy of the PEP's financial statements, write to the Positive Education Program at 3100 Euclid Avenue, Cleveland, Ohio 44115-2508.

Portage Area School Consortium

Portage Area School Consortium is an insurance group-purchasing consortium made up of 27 participating members. All members pay an insurance premium directly to the consortium. The Service Center paid \$2,302,155 in the form of health care and life insurance premiums to the consortium during the fiscal year 2022. To obtain a copy of the consortium's financial statements, write to Mr. Todd Carpenter, Treasurer, Waterloo Local School District, 1464 Industry Road, Atwater, Ohio 44201.

Note 15 - Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year end the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

Governmental Funds:	
General	\$3,028,823
Local Grants	3,402,426
Miscellaneous Federal Grants	552,424
Other Governmental Funds	<u>1,496,855</u>
Total Governmental	<u>\$8,480,528</u>
Proprietary Funds:	
Internal Service Funds	<u>\$23,326</u>

Note 16 – Contingencies

Grants

The Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Service Center at June 30, 2022, if applicable, cannot be determined at this time.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

School Foundation

School District foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. The Ohio Department of Education (ODE) is legislatively required to adjust/reconcile funding as enrollment information is updated by schools throughout the State, which can extend past the fiscal year end. ODE has finalized the impact of enrollment adjustments to the June 30, 2022 foundation funding for the Service Center. These adjustments were insignificant for the Service Center.

Litigation

The Service Center is a party to legal proceedings. The amount of the liability, if any, cannot be reasonably estimated at this time. However, in the opinion of management, any such claims and lawsuits will not have a material adverse effect on the overall financial position of the Service Center at June 30, 2022.

Note 17 - Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability (Asset)

The net pension liability and the net OPEB liability (asset) reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

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 *net OPEB asset* or long-term *net pension/OPEB liability* 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 *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 18 for the required OPEB disclosures.

School Employees Retirement System (SERS)

Plan Description – Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org 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. 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. The COLA is indexed to the percentage increase in the CPI-W, not to exceed 2.5 percent and with a floor of 0 percent. A three-year COLA suspension was in effect for all benefit recipients for the years 2018, 2019, and 2020. The Retirement Board approved a 0.5 percent COLA for calendar year 2021.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS’ Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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, 2022, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2022, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Service Center's contractually required contribution to SERS was \$2,890,778 for fiscal year 2022. Of this amount \$175,452 is reported as an intergovernmental payable.

State Teachers Retirement System (STRS)

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

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

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

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2026, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

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

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

Educational Service Center of Northeast Ohio

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 2022 employer and employee contribution rate of 14 percent was equal to the statutory maximum rates. For fiscal year 2022, the full employer contribution was allocated to pension.

The Service Center's contractually required contribution to STRS was \$5,763,105 for fiscal year 2022. Of this amount \$373,150 is reported as an intergovernmental payable.

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, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Service Center's proportion of the net pension liability was based on the Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability:			
Current Measurement Date	0.58411224%	0.27577650%	
Prior Measurement Date	<u>0.58404227%</u>	<u>0.28674815%</u>	
Change in Proportionate Share	<u>0.00006997%</u>	<u>-0.01097165%</u>	
Proportionate Share of the Net			
Pension Liability	\$21,552,047	\$35,260,503	\$56,812,550
Pension Expense	(\$1,297,471)	(\$1,834,464)	(\$3,131,935)

At June 30, 2022, the Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Educational Service Center of Northeast Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022*

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$2,080	\$1,089,379	\$1,091,459
Changes of assumptions	453,822	9,781,896	10,235,718
Changes in proportionate Share and difference between Service Center contributions and proportionate share of contributions	16,631	88,437	105,068
Service Center contributions subsequent to the measurement date	2,890,778	5,763,105	8,653,883
Total Deferred Outflows of Resources	\$3,363,311	\$16,722,817	\$20,086,128
Deferred Inflows of Resources			
Differences between expected and actual experience	\$558,932	\$221,012	\$779,944
Net difference between projected and actual earnings on pension plan investments	11,099,934	30,387,805	41,487,739
Changes in Proportionate Share and Difference between Service Center contributions and proportionate share of contributions	72,832	5,681,846	5,754,678
Total Deferred Inflows of Resources	\$11,731,698	\$36,290,663	\$48,022,361

\$8,653,883 reported as deferred outflows of resources related to pension resulting from Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2023	(\$2,795,415)	(\$6,618,602)	(\$9,414,017)
2024	(2,417,582)	(5,920,388)	(8,337,970)
2025	(2,639,163)	(6,248,433)	(8,887,596)
2026	(3,407,005)	(6,543,528)	(9,950,533)
Total	(\$11,259,165)	(\$25,330,951)	(\$36,590,116)

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.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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, 2021, compared with June 30, 2020, are presented below:

	June 30, 2021	June 30, 2020
Inflation	2.4 percent	3.00 percent
Future Salary Increases, including inflation COLA or Ad Hoc COLA	3.25 percent to 13.58 percent 2.0 percent, on or after April 1, 2018, COLAs for future retirees will be delayed for three years following commencement	3.50 percent to 18.20 percent 2.5 percent
Investment Rate of Return	7.00 percent net of System expenses	7.50 percent net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)	Entry Age Normal (Level Percent of Payroll)

Mortality rates for 2021 were based on the PUB-2010 General Employee Amount Weight Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20 percent for males and set forward 2 years and adjusted 81.35 percent for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3 percent for males and set forward 3 years and adjusted 106.8 percent for females. Future improvement in mortality rates is reflected by applying the MP-2020 projection scale generationally.

Mortality rates for 2020 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, 2020.

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

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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 rebalancing uncorrelated asset classes.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash	2.00 %	(0.33) %
US Equity	24.75	5.72
Non-US Equity Developed	13.50	6.55
Non-US Equity Emerging	6.75	8.54
Fixed Income/Global Bonds	19.00	1.14
Private Equity	11.00	10.03
Real Estate/Real Assets	16.00	5.41
Multi-Asset Strategy	4.00	3.47
Private Debt/Private Credit	3.00	5.28
Total	100.00 %	

Discount Rate The total pension liability for 2021 was calculated using the discount rate of 7.00 percent. The discount rate for 2020 was 7.5 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 earnings were calculated using the long-term assumed investment rate of return (7.00 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 Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.00 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 (6.00 percent), or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Service Center's proportionate share of the net pension liability	\$35,857,314	\$21,552,047	\$9,487,791

Actuarial Assumptions – STRS

Key methods and assumptions used in the June 30, 2021, actuarial valuation compared to those used in the June 30, 2020, actuarial valuation are presented as follows:

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

	June 30, 2021	June 30, 2020
Inflation	2.50 percent	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.00 percent, net of investment expenses, including inflation	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.00 percent	7.45 percent
Payroll Increases	3.00 percent	3.00 percent
Cost-of-Living Adjustments (COLA)	0.0 percent	0.0 percent,

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

Actuarial assumptions used in the June 30, 2021, 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 include the real rate of return and inflation of 2.25 percent, and is net of 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 7.00 percent as of June 30, 2021, and was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit

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Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022

payments to current plan members as of June 30, 2021. Therefore, the long-term expected rate of return on pension plan investments of 7.00 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2021.

Sensitivity of the Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.00 percent, as well as what the Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.00 percent) or one-percentage-point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Service Center's proportionate share of the net pension liability	\$66,029,727	\$35,260,503	\$9,260,577

Changes Between the Measurement Date and the Reporting date In February 2022, the Board approved changes to demographic measures that will impact the June 30, 2022, actuarial valuation. These demographic measures include retirement, salary increase, disability/termination and mortality assumptions. In March 2022, the STRS Board approved benefit plan changes to take effect on July 1, 2022. These changes include a one-time three percent cost-of-living increase (COLA) to be paid to eligible benefit recipients and the elimination of the age 60 requirement for retirement age and service eligibility that was set to take effect in 2026. The effect on the net pension liability is unknown.

Note 18 - Defined Benefit OPEB Plans

See note 17 for a description of the net OPEB liability (asset)

School Employees Retirement System (SERS)

Health Care Plan Description - The Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. The following types of credit purchased after January 29, 1981 do not count toward health care coverage eligibility: military, federal, out-of-state, municipal, private school, exempted, and early retirement incentive credit. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Annual Comprehensive Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

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 2022, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2022, this amount was \$25,000. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2022, the Service Center's surcharge obligation was \$193,832.

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 Service Center's contractually required contribution to SERS was \$193,832 for fiscal year 2022. Of this amount \$193,832 is reported as an intergovernmental payable.

State Teachers Retirement System (STRS)

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2022, STRS did not allocate any employer contributions to post-employment health care.

OPEB Liability (Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability (asset) was measured as of June 30, 2021, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Service Center's proportion of the net OPEB liability (asset) was based on the Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

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*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2022*

	SERS	STRS	Total
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.54874757%	0.27577650%	
Prior Measurement Date	0.54980078%	0.28674815%	
Change in Proportionate Share	-0.00105321%	-0.01097165%	
Proportionate Share of the:			
Net OPEB Liability	\$10,385,499	\$0	\$10,385,499
Net OPEB (Asset)	\$0	(\$5,814,521)	(\$5,814,521)
OPEB Expense	(\$627,557)	(\$395,528)	(\$1,023,085)

At June 30, 2022, the Service Center 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	\$110,703	\$207,036	\$317,739
Changes of assumptions	1,629,238	371,407	2,000,645
Changes in proportionate Share and difference between Service Center contributions and proportionate share of contributions	0	60,292	60,292
Service Center contributions subsequent to the measurement date	193,832	0	193,832
Total Deferred Outflows of Resources	\$1,933,773	\$638,735	\$2,572,508
Deferred Inflows of Resources			
Differences between expected and actual experience	\$5,172,445	\$1,065,324	\$6,237,769
Changes of assumptions	1,422,208	3,468,785	4,890,993
Net difference between projected and actual earnings on OPEB plan investments and proportionate share of contributions	225,628	1,611,685	1,837,313
Total Deferred Inflows of Resources	\$8,766,937	\$6,183,893	\$14,950,830

\$193,832 reported as deferred outflows of resources related to OPEB resulting from Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability or an increase to the net OPEB asset in the year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2023	(\$1,691,362)	(\$1,577,592)	(\$3,268,954)
2024	(1,692,944)	(1,537,257)	(3,230,201)
2025	(1,633,186)	(1,514,973)	(3,148,159)
2026	(1,251,945)	(683,364)	(1,935,309)
2027	(582,106)	(236,350)	(818,456)
Thereafter	<u>(175,453)</u>	<u>4,378</u>	<u>(171,075)</u>
Total	<u>(\$7,026,996)</u>	<u>(\$5,545,158)</u>	<u>(\$12,572,154)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2021, compared with June 30, 2020, are presented as follows:

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

	June 30, 2021	June 30, 2020
Inflation	2.40 percent	3.00 percent
Future Salary Increases, including inflation		
Wage Increases	3.25 percent to 13.58 percent	3.50 percent to 18.20 percent
Investment Rate of Return	7.00 percent net of investment expense, including inflation	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:		
Measurement Date	1.92 percent	2.45 percent
Prior Measurement Date	2.45 percent	3.13 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation		
Measurement Date	2.27 percent	2.63 percent
Prior Measurement Date	2.63 percent	3.22 percent
Medical Trend Assumption		
Medicare	5.125 to 4.40 percent	5.25 to 4.75 percent
Pre-Medicare	6.75 to 4.40 percent	7.00 to 4.75 percent

For 2021, mortality rates among healthy retirees were based on the PUB-2010 General Employee Amount Weighted Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20 percent for males and set forward 2 years and adjusted 81.35 percent for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3 percent for males and set forward 3 years and adjusted 106.8 percent for females. Mortality rates for contingent survivors were based on PUB-2010 General Amount Weighted Below Median Contingent Survivor mortality table projected to 2017 with ages set forward 1 year and adjusted 105.5 percent for males and adjusted 122.5 percent for females. Mortality rates for actives is based on PUB-2010 General Amount Weighted Below Median Employee mortality table.

For 2020, 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, 2020.

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 2015 through 2020, and was adopted by the Board in 2021. 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, 7.00 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.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2021 was 2.27 percent. The discount rate used to measure total OPEB liability prior to June 30, 2021, was 2.63 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 contribution rate of 1.50 percent of projected covered payroll each year, which includes a 1.50 percent payroll surcharge and no contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make all projected future benefit payments of current System members by SERS actuaries. The Municipal Bond Index Rate is used in the determination of the SEIR for both the June 30, 2020 and the June 30, 2021 total OPEB liability. The Municipal Bond Index rate is the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by the long-term expected rate of return, and the present value determined by discounting those benefits after the date of depletion. The Municipal Bond Index Rate is 1.92 percent at June 30, 2021 and 2.45 percent at June 30, 2020.

Sensitivity of the Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.27%) and higher (3.27%) than the current discount rate (2.27%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (5.75% decreasing to 3.40%) and higher (7.75% decreasing to 5.40%) than the current rate.

	1% Decrease (1.27%)	Current Discount Rate (2.27%)	1% Increase (3.27%)
Service Center's proportionate share of the net OPEB liability	\$12,868,888	\$10,385,499	\$8,401,588

	1% Decrease (5.75% decreasing to 3.40%)	Current Trend Rate (6.75% decreasing to 4.40%)	1% Increase (7.75% decreasing to 5.40%)
Service Center's proportionate share of the net OPEB liability	\$7,995,982	\$10,385,499	\$13,577,157

Actuarial Assumptions – STRS

Key methods and assumptions used in the June 30, 2021, actuarial valuation and the June 30, 2020 actuarial valuation are presented as follows:

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Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2022

	June 30, 2021	June 30, 2020
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.00 percent, net of investment expenses, including inflation	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3 percent
Discount Rate of Return	7.00 percent	7.45 percent
Health Care Cost Trends		
Medical		
Pre-Medicare	5.00 percent initial, 4 percent ultimate	5.00 percent initial, 4 percent ultimate
Medicare	-16.18 percent initial, 4 percent ultimate	-6.69 percent initial, 4 percent ultimate
Prescription Drug		
Pre-Medicare	6.50 percent initial, 4 percent ultimate	6.50 percent initial, 4 percent ultimate
Medicare	29.98 initial, 4 percent ultimate	11.87 initial, 4 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2021, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

The non-Medicare subsidy percentage was increased effective January 1, 2022 from 2.055 percent to 2.1 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2022. The Medicare Part D Subsidy was updated to reflect it is expected to be negative in CY 2022. The Part B monthly reimbursement elimination date was postponed indefinitely.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

Discount Rate The discount rate used to measure the total OPEB liability was 7.00 percent as of June 30, 2021, and was 7.45 percent as of June 30, 2020. The projection of cash flows used to determine the discount rate assumes STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2021. Therefore, the long-term expected rate of return on health care plan investments of 7.00 percent was used to measure the total OPEB liability as of June 30, 2021.

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2022

Sensitivity of the Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2021, calculated using the current period discount rate assumption of 7.00 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 (6.00 percent) or one percentage point higher (8.00 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Service Center's proportionate share of the net OPEB asset	(\$4,906,558)	(\$5,814,521)	(\$6,572,989)

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Service Center's proportionate share of the net OPEB asset	(\$6,542,257)	(\$5,814,521)	(\$4,914,610)

Changes Between the Measurement Date and the Reporting date In February 2022, the Board approved changes to demographic measures that will impact the June 30, 2022, actuarial valuation. The effect on the net OPEB liability is unknown.

Note 19 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During fiscal year 2022, the Service Center received COVID-19 funding. The Service Center's investment portfolio fluctuates with market conditions, and due to market volatility, the amount of gains or losses that will be realized in subsequent periods, if any, cannot be determined. The financial impact of COVID-19 and the continuing recovery measures will impact subsequent periods of the Service Center. The impact on the Service Center's future operating costs, revenues, and additional recovery from funding, either federal or state, cannot be estimated.

Required Supplementary Information

Educational Service Center of Northeast Ohio
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Nine Fiscal Years (1)

	2022	2021	2020	2019
Service Center's Proportion of the Net Pension Liability	0.58411224%	0.58404227%	0.58759500%	0.64881919%
Service Center's Proportionate Share of the Net Pension Liability	\$21,552,047	\$38,629,785	\$35,156,838	\$37,159,073
Service Center's Covered Payroll	\$20,350,021	\$20,661,193	\$19,903,785	\$20,457,600
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	105.91%	186.97%	176.63%	181.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.86%	68.55%	70.85%	71.36%

(1) Information prior to 2014 is not available.

*Amounts presented for each fiscal year were determined as of the Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2018	2017	2016	2015	2014
0.66195062%	0.66099505%	0.58971480%	0.59607500%	0.59607500%
\$39,550,086	\$48,378,737	\$33,649,701	\$30,167,099	\$35,446,764
\$21,238,157	\$20,783,264	\$17,974,831	\$17,325,057	\$17,327,092
186.22%	232.78%	187.20%	174.12%	204.57%
69.50%	62.98%	69.16%	71.70%	65.52%

Educational Service Center of Northeast Ohio
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Six Fiscal Years (1)

	2022	2021	2020	2019
Service Center's Proportion of the Net OPEB Liability	0.54874757%	0.54980078%	0.55576274%	0.61715471%
Service Center's Proportionate Share of the Net OPEB Liability	\$10,385,499	\$11,948,970	\$13,976,267	\$17,121,538
Service Center's Covered Payroll	\$20,350,021	\$20,661,193	\$19,903,785	\$20,457,600
Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	51.03%	57.83%	70.22%	83.69%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	24.08%	18.17%	15.57%	13.57%

(1) Information prior to 2017 is not available.

*Amounts presented for each fiscal year were determined as of the Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2018	2017
0.62233181%	0.62402525%
\$16,701,751	\$17,787,028
\$21,238,157	\$20,783,264
78.64%	85.58%
12.46%	11.49%

Educational Service Center of Northeast Ohio
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Nine Fiscal Years (1)

	2022	2021	2020	2019
Service Center's Proportion of the Net Pension Liability	0.27577650%	0.28674815%	0.31474107%	0.31451423%
Service Center's Proportionate Share of the Net Pension Liability	\$35,260,503	\$69,382,850	\$69,603,096	\$69,154,617
Service Center's Covered Payroll	\$34,054,486	\$34,692,679	\$36,763,971	\$35,827,814
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	103.54%	199.99%	189.32%	193.02%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.80%	75.50%	77.40%	77.30%

(1) Information prior to 2014 is not available.

*Amounts presented for each fiscal year were determined as of the Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2018	2017	2016	2015	2014
0.31147660%	0.31112990%	0.26715863%	0.23536772%	0.23536772%
\$73,991,935	\$104,144,556	\$73,834,832	\$57,249,575	\$68,195,319
\$34,363,893	\$33,105,550	\$27,969,093	\$23,804,507	\$22,450,062
215.32%	314.58%	263.99%	240.50%	303.76%
75.30%	66.80%	72.10%	74.70%	69.30%

Educational Service Center of Northeast Ohio
Required Supplementary Information
Schedule of the Service Center's Proportionate Share of the Net OPEB Liability (Asset)
State Teachers Retirement System of Ohio
Last Six Fiscal Years (1)

	2022	2021	2020	2019
Service Center's Proportion of the Net OPEB Liability (Asset)	0.27577650%	0.28674815%	0.31474107%	0.31451423%
Service Center's Proportionate Share of the Net OPEB Liability (Asset)	(\$5,814,521)	(\$5,039,594)	(\$5,212,868)	(\$5,053,923)
Service Center's Covered Payroll	\$34,054,486	\$34,692,679	\$36,763,971	\$35,827,814
Service Center's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	-17.07%	-14.53%	-14.18%	-14.11%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	174.70%	182.10%	174.70%	176.00%

(1) Information prior to 2017 is not available.

*Amounts presented for each fiscal year were determined as of the Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

2018	2017
0.31147660%	0.31112990%
\$12,152,667	\$16,639,308
\$34,363,893	\$33,105,550
35.36%	50.26%
47.10%	37.30%

Educational Service Center of Northeast Ohio
Required Supplementary Information
Schedule of the Service Center's Contributions
School Employees Retirement System of Ohio
Last Ten Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net Pension Liability				
Contractually Required Contribution	\$2,890,778	\$2,849,003	\$2,892,567	\$2,687,011
Contributions in Relation to the Contractually Required Contribution	<u>(2,890,778)</u>	<u>(2,849,003)</u>	<u>(2,892,567)</u>	<u>(2,687,011)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Service Center Covered Payroll (1)	\$20,648,414	\$20,350,021	\$20,661,193	\$19,903,785
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.50%</u>
Net OPEB Liability				
Contractually Required Contribution (2)	193,832	107,424	88,890	222,482
Contributions in Relation to the Contractually Required Contribution	<u>(193,832)</u>	<u>(107,424)</u>	<u>(88,890)</u>	<u>(222,482)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.94%</u>	<u>0.53%</u>	<u>0.43%</u>	<u>1.12%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>14.94%</u>	<u>14.53%</u>	<u>14.43%</u>	<u>14.62%</u>

(1) The Service Center's covered payroll is the same for Pension and OPEB.

(2) Includes Surcharge

See accompanying notes to the required supplementary information

2018	2017	2016	2015	2014	2013
\$2,761,776	\$2,973,342	\$2,909,657	\$2,369,083	\$2,401,253	\$2,398,069
(2,761,776)	(2,973,342)	(2,909,657)	(2,369,083)	(2,401,253)	(2,398,069)
\$0	\$0	\$0	\$0	\$0	\$0
\$20,457,600	\$21,238,157	\$20,783,264	\$17,974,831	\$17,325,057	\$17,327,092
13.50%	14.00%	14.00%	13.18%	13.86%	13.84%
262,057	115,321	122,855	193,219	66,748	69,323
(262,057)	(115,321)	(122,855)	(193,219)	(66,748)	(69,323)
\$0	\$0	\$0	\$0	\$0	\$0
1.28%	0.54%	0.59%	1.07%	0.39%	0.40%
14.78%	14.54%	14.59%	14.25%	14.25%	14.24%

Educational Service Center of Northeast Ohio
Required Supplementary Information
Schedule of the Service Center's Contributions
State Teachers Retirement System of Ohio
Last Ten Fiscal Years

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net Pension Liability				
Contractually Required Contribution	\$5,763,105	\$4,767,628	\$4,856,975	\$5,146,956
Contributions in Relation to the Contractually Required Contribution	<u>(5,763,105)</u>	<u>(4,767,628)</u>	<u>(4,856,975)</u>	<u>(5,146,956)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Service Center Covered Payroll (1)	\$41,165,036	\$34,054,486	\$34,692,679	\$36,763,971
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
Net OPEB Liability				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The Service Center's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$5,015,894	\$4,810,945	\$4,634,777	\$3,915,673	\$3,094,586	\$2,918,508
<u>(5,015,894)</u>	<u>(4,810,945)</u>	<u>(4,634,777)</u>	<u>(3,915,673)</u>	<u>(3,094,586)</u>	<u>(2,918,508)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$35,827,814	\$34,363,893	\$33,105,550	\$27,969,093	\$23,804,507	\$22,450,062
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$0	\$0	\$0	\$0	\$238,045	\$224,501
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(238,045)</u>	<u>(224,501)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

Educational Service Center of Northeast Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2022

Net Pension Liability

Changes in Assumptions – SERS

Beginning in fiscal year 2022, an assumption of 2.0 percent was used for COLA or Ad Hoc Cola. For fiscal years 2018 through 2021, an assumption of 2.5 percent was used. Prior to 2018, an assumption of 3 percent was used.

Amounts reported in 2022 incorporate changes in assumptions used by SERS in calculating the total pension liability in the latest actuarial valuation. These assumptions compared with those used in prior years are presented below:

	Fiscal Year 2022	Fiscal Years 2021-2017	Fiscal Year 2016 and Prior
Wage Inflation	2.4 percent	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.25 percent to 13.58 percent	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.0 percent net of system expenses	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Amounts reported for 2022 use mortality rates based on the PUB-2010 General Employee Amount Weight Below Median Healthy Retiree mortality table projected to 2017 with ages set forward 1 year and adjusted 94.20 percent for males and set forward 2 years and adjusted 81.35 percent for females. Mortality among disabled members were based upon the PUB-2010 General Disabled Retiree mortality table projected to 2017 with ages set forward 5 years and adjusted 103.3 percent for males and set forward 3 years and adjusted 106.8 percent for females. Future improvement in mortality rates is reflected by applying the MP-2020 projection scale generationally.

Amounts report for 2017 through 2021 use mortality rates that are 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. Amounts reported for fiscal year 2016 and prior, use mortality assumptions that are based on the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables were used for the period after disability retirement.

Changes in Assumptions - STRS

Beginning with fiscal year 2022, amounts reported incorporate changes in assumptions and changes in benefit terms used by STRS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal years 2018-2021 and fiscal year 2017 and prior are presented below:

Educational Service Center of Northeast Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2022

	Fiscal Year 2022	Fiscal Years 2021-2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.50 percent	2.75 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65	12.50 percent at age 20 to 2.50 percent at age 65	12.25 percent at age 20 to 2.75 percent at age 70
Investment Rate of Return	7.00 percent, net of investment expenses, including inflation	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017	0.0 percent, effective July 1, 2017	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA commences on fifth anniversary of retirement date.

Beginning with fiscal year 2018, 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.

For fiscal year 2017 and prior actuarial valuation, mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89, and no set back from age 90 and above.

Net OPEB Liability

Changes in Assumptions – SERS

Beginning with fiscal year 2022, amounts reported incorporate changes in assumptions and changes in benefit terms used by SERS in calculating the total OPEB liability in the latest actuarial valuation. These new assumptions compared with those used in fiscal year 2021 and prior are presented below:

	2022	2021 and Prior
Inflation	2.40 percent	3.00 percent
Future Salary Increases, including inflation		
Wage Increases	3.25 percent to 13.58 percent	3.50 percent to 18.20 percent
Investment Rate of Return	7.00 percent net of investment expense, including inflation	7.50 percent net of investment expense, including inflation

Educational Service Center of Northeast Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2022

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

Municipal Bond Index Rate:	
Fiscal year 2022	1.92 percent
Fiscal year 2021	2.45 percent
Fiscal year 2020	3.13 percent
Fiscal year 2019	3.62 percent
Fiscal year 2018	3.56 percent
Fiscal year 2017	2.92 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Fiscal year 2022	2.27 percent
Fiscal year 2021	2.63 percent
Fiscal year 2020	3.22 percent
Fiscal year 2019	3.70 percent
Fiscal year 2018	3.63 percent
Fiscal year 2017	2.98 percent

Changes in Assumptions – STRS

For fiscal year 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.

For fiscal year 2019, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45.

For fiscal year 2022, the discount rate was decreased from 7.45 percent to the long-term expected rate of return of 7.00.

Changes in Benefit Terms – STRS OPEB

For fiscal year 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 2020.

For fiscal year 2019, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements will be discontinued beginning January 1, 2020.

Educational Service Center of Northeast Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2022

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

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

For fiscal year 2022, there was no change to the claims costs process. Claim curves were updated to reflect the projected fiscal year ending June 30, 2022 premium based on June 30, 2021 enrollment distribution. The non-Medicare subsidy percentage was increased effective January 1, 2022 from 2.055 percent to 2.1 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2022. The Medicare Part D Subsidy was updated to reflect it is expected to be negative in CY 2022. The Part B monthly reimbursement elimination date was postponed indefinitely.

Supplemental Information

Educational Service Center of Northeast Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$7,479,755	
Interest			91,541	
Tuition and Fees			27,893,735	
Rentals			1,112,370	
Charges for Services			44,901,262	
Miscellaneous			778,592	
<i>Total Revenues</i>			<u>82,257,255</u>	
Expenditures				
Current:				
Instruction:				
Regular	\$17,719,797	\$17,385,974	15,555,089	\$1,830,885
Special	32,850,232	32,564,793	28,660,946	3,903,847
Vocational	697,833	691,769	605,842	85,927
Other	13,278	13,163	11,528	1,635
Support Services:				
Pupil	14,284,847	14,160,724	12,469,479	1,691,245
Instructional Staff	5,933,956	5,882,397	5,486,474	395,923
Board of Education	45,240	61,318	61,318	0
Administration	13,765,032	13,736,771	13,736,771	0
Fiscal	1,850,164	1,902,712	1,902,712	0
Business	49,552	49,122	48,020	1,102
Operation and Maintenance of Plant	2,444,840	2,423,596	2,228,370	195,226
Pupil Transportation	33,763	33,469	29,312	4,157
Central	961,471	953,116	932,675	20,441
Extracurricular Activities	159,736	161,761	139,155	22,606
<i>Total Expenditures</i>	<u>\$90,809,741</u>	<u>\$90,020,685</u>	<u>\$81,867,691</u>	<u>\$8,152,994</u>
<i>Excess of Revenues Over (Under) Expenditures</i>			<u>389,564</u>	
Other Financing Sources (Uses)				
Advances In			2,760,000	
Advances Out			(4,320,000)	
<i>Total Other Financing Sources (Uses)</i>			<u>(1,560,000)</u>	
<i>Net Change in Fund Balance</i>			(1,170,436)	
<i>Fund Balance Beginning of Year</i>			12,393,575	
Prior Year Encumbrances Appropriated			<u>1,562,347</u>	
<i>Fund Balance End of Year</i>			<u>\$12,785,486</u>	

See accompanying notes to the supplemental information

Supplemental Information

Educational Service Center of Northeast Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Local Grants Fund
For the Fiscal Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$8,444,473	
Customer Services			9,672,819	
Miscellaneous			1,025,000	
<i>Total Revenues</i>			19,142,292	
Expenditures				
Current:				
Instruction:				
Regular	\$17,417,346	\$12,708,187	12,708,187	\$0
Student Intervention Services	6,670	11,600	11,600	0
Support Services:				
Pupil	16,163	10,641	10,641	0
Instructional Staff	186,036	119,128	119,128	0
Administration	1,670,387	1,566,962	1,692,248	(125,286)
Fiscal	128	2,302	2,302	0
Operation of Non-Instructional Services	13,755,752	9,666,938	9,666,938	0
Capital Outlay	105,220	200,000	200,000	0
<i>Total Expenditures</i>	<u>\$33,157,702</u>	<u>\$24,285,758</u>	24,411,044	<u>(\$125,286)</u>
<i>Net Change in Fund Balance</i>			(5,268,752)	
<i>Fund Deficit Beginning of Year</i>			(644,140)	
Prior Year Encumbrances Appropriated			1,320,096	
<i>Fund Balance End of Year</i>			<u>(\$4,592,796)</u>	

See accompanying notes to the supplemental information

Supplemental Information

Educational Service Center of Northeast Ohio
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Miscellaneous Federal Grants Fund
For the Fiscal Year Ended June 30, 2022

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$2,632,475	
Expenditures				
Current:				
Support Services:				
Pupil	\$955,367	\$1,195,442	804,190	\$391,252
Instructional Staff	137,169	171,639	103,354	68,285
Administration	257,579	301,379	194,135	107,244
Fiscal	0	20,928	20,928	0
Central	794,716	994,421	988,484	5,937
Operation of Non-Instructional Services	2,304,187	2,883,209	1,793,564	1,089,645
<i>Total Expenditures</i>	<u>\$4,449,018</u>	<u>\$5,567,018</u>	3,904,655	<u>\$1,662,363</u>
<i>Excess of Revenues Over (Under) Expenditures</i>			<u>(1,272,180)</u>	
Other Financing Sources (Uses)				
Advances In			1,459,000	
Advances Out			<u>(1,410,000)</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>49,000</u>	
<i>Net Change in Fund Balance</i>			(1,223,180)	
<i>Fund Balance Beginning of Year</i>			414,058	
Prior Year Encumbrances Appropriated			<u>849,018</u>	
<i>Fund Balance End of Year</i>			<u>\$39,896</u>	

See accompanying notes to the supplemental information

Educational Service Center of Northeast Ohio

*Notes to Supplemental Information
For the Fiscal Year Ended June 30, 2022*

Note 1 – Budgetary Basis of Accounting

Budgetary Process

The Service Center is not required under State statute to file budgetary information with the State Department of Education. However, the Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources. The resolution sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds. The amounts reported as the original budgeted amounts reflect the first appropriation for that fund that covered the entire fiscal year, including amounts automatically carried over from prior fiscal years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the fiscal year.

Budgetary Basis of Accounting

While the Service Center is reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The schedule of revenues, expenditures and changes in fund balance - budget (non-GAAP basis) and actual for the general fund and the major special revenue funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Unrecorded cash represents amounts received but not included as revenue on the budget basis operating schedules. These amounts are included as revenue on the GAAP basis operating statement.
3. Investments are reported at cost (budget basis) rather than fair value (GAAP basis).
4. Advances In and Advances Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
5. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
6. Encumbrances are treated as expenditures (budget basis) rather than as restricted, committed or assigned fund balance (GAAP basis).

Educational Service Center of Northeast Ohio

*Notes to Supplemental Information
For the Fiscal Year Ended June 30, 2022*

The following table summarizes the adjustments necessary to reconcile the GAAP basis statement to the budgetary basis schedules for the major funds.

	Net Change in Fund Balance		
	General	Local Grants	Miscellaneous Federal Grants
GAAP Basis	\$3,224,735	(\$2,329,937)	\$451,852
Net Adjustment for Revenue Accruals	(532,621)	319,010	(1,328,751)
Ending Unrecorded Cash	(7,891)	0	0
Beginning Fair Value Adjustment	(115,549)	0	0
Ending Fair Value Adjustment	198,488	0	0
Advances In	2,760,000	0	1,459,000
Advances Out	(4,320,000)	0	(1,410,000)
Net Adjustment for Expenditure Accruals	651,225	144,601	157,143
Adjustment for Encumbrances	(3,028,823)	(3,402,426)	(552,424)
Budget Basis	<u>(\$1,170,436)</u>	<u>(\$5,268,752)</u>	<u>(\$1,223,180)</u>

**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title	Federal CFDA Number	Federal CFDA Number	Pass Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Ohio Department of Education</i>					
Child Nutrition Cluster					
National School Breakfast Program	2022	10.553		\$ 200,796	\$ 200,796
National School Lunch Program	2022	10.555		420,131	420,131
COVID-19 - National School Lunch Program	2022	10.555		34,686	34,686
Total Child Nutrition Cluster				<u>655,613</u>	<u>655,613</u>
COVID-19 - P-EBT Funds	2022	10.649		614	614
Total U.S. Department of Agriculture				<u>656,227</u>	<u>656,227</u>
U.S. DEPARTMENT OF EDUCATION					
<i>Passed Through Ohio Department of Education</i>					
Title I Cluster					
Title I-Grants to Local Educational Agencies	2021	84.010			26,429
Title I-Grants to Local Educational Agencies	2022	84.010			169,294
Subtotal Title I-Grants to Local Educational Agencies					<u>195,723</u>
Special Education Cluster					
Special Education-Grants to States (IDEA Part B)	2021	84.027			533,522
Special Education-Grants to States (IDEA Part B)	2022	84.027			2,435,930
Subtotal Special Education-Grants to States (IDEA Part B)					<u>2,969,452</u>
Special Education-PreSchool Grants (IDEA PreSchool)	2021	84.173			16,295
Special Education-PreSchool Grants (IDEA PreSchool)	2022	84.173			100,137
Subtotal Special Education- PreSchool Grants					<u>116,432</u>
Total Special Education Cluster					<u>3,085,884</u>
Project Prevent Initiative	2021	84.184			243,055
Project Prevent Initiative	2022	84.184			542,806
Total Project Prevent Initiative					<u>785,861</u>
English Language Acquisition Grant	2021	84.365		42,257	42,257
English Language Acquisition Grant	2022	84.365		107,290	107,290
Total English Language Acquisition Grant				<u>149,547</u>	<u>149,547</u>
Improving Teacher Quality State Grants, Title II-A	2021	84.367			20,975
Improving Teacher Quality State Grants, Title II-A	2022	84.367			84,347
Total Improving Teacher Quality State Grants, Title II-A					<u>105,322</u>
Striving Readers Comprehensive Literacy Program	2021	84.371			73,543
Striving Readers Comprehensive Literacy Program	2022	84.371			393,434
Total Striving Readers Comprehensive Literacy Program					<u>466,977</u>
Teacher and School Leadership	2022	84.374			363,243
COVID-19 - Elementary and Secondary School Emergency Relief Fund	2021	84.425D			12,908
COVID-19 - Elementary and Secondary School Emergency Relief Fund	2022	84.425D			167,201
COVID-19 - Governor's Emergency Education Relief Fund	2021	84.425C			104,116
COVID-19 - Governor's Emergency Education Relief Fund	2022	84.425C			1,885,282
Total COVID-19 Education Stabilization Fund					<u>2,169,507</u>
<i>Passed Through Ohio Department of Developmental Disabilities</i>					
Special Education Grants for Infants and Families	2021	84.181	H181A180024		(35,726)
Special Education Grants for Infants and Families	2022	84.181			1,763,552
Total Special Education Grants for Infants and Families					<u>1,727,826</u>
Total U.S. Department of Education				<u>149,547</u>	<u>9,049,890</u>
<i>Passed Through Ohio Department of Job and Family Services</i>					
Refugee and Entrant Assistance Grants	2021	93.576		8,636	8,636
Total U.S. Department of Health and Human Services				<u>8,636</u>	<u>8,636</u>
Total Expenditures of Federal Awards				<u>\$814,410</u>	<u>\$9,714,753</u>

The accompanying notes are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED JUNE 30, 2022**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Educational Service Center of Northeast Ohio (the Service Center) under programs of the federal government for the year ended June 30, 2022. 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 Service Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Service 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement.

NOTE C – INDIRECT COST RATE

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

NOTE D – SUBRECIPIENTS

The Service Center passes certain federal awards received from U.S. Department of Agriculture, U.S. Department of Education and U.S. Department of Health and Human Services to other governments or not-for-profit agencies (subrecipients). As Note B describes the Service Center reports expenditures of Federal awards to subrecipients when paid in cash.

As a subrecipient, the Service Center has certain compliance responsibilities, such as monitoring its subrecipients to help assure they use these subawards as authorized by laws, regulations, and the provisions of contracts or grant agreements, and that subrecipients achieve the award's performance goals.

NOTE E – CHILD NUTRITION CLUSTER

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

OHIO AUDITOR OF STATE KEITH FABER



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

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

Educational Service Center of Northeast Ohio
Cuyahoga County
6393 Oak Tree Boulevard
Independence, Ohio 44131

To the Board of Education:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Northeast Ohio, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated March 24, 2023, wherein we noted the Service Center modified its approach related to eligibility requirements of certain grants and also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Service Center.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Keith Faber
Auditor of State
Columbus, Ohio

March 24, 2023

OHIO AUDITOR OF STATE KEITH FABER



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

Educational Service Center of Northeast Ohio
Cuyahoga County
6393 Oak Tree Boulevard
Independence, Ohio 44131

To the Board of Education:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Educational Service Center of Northeast Ohio's, Cuyahoga County, (the Service Center) compliance with the types of compliance requirements identified as subject to audit in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Educational Service Center of Northeast Ohio's major federal programs for the year ended June 30, 2022. The Educational Service Center of Northeast Ohio's major federal programs are identified in the *Summary of Auditor's Results* section of the accompanying schedule of findings.

In our opinion, the Educational Service Center of Northeast Ohio complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by 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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Service Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Service Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

The Service Center's Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Service Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Service Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Service Center's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Service Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the Service Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the *Auditor's Responsibilities for the Audit of Compliance* section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Keith Faber
Auditor of State
Columbus, Ohio

March 24, 2023

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**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2022**

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?	No
(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	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	<u>Education Stabilization Fund:</u> AL #84.425C – Governor's Emergency Education Relief Fund; AL #84.425D – Elementary and Secondary School Emergency Relief Fund <u>Special Education Cluster:</u> AL #84.027 – Special Education Grants to States; AL #84.173 – Special Education Preschool Grants
(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?	Yes

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

None

**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2022**

3. FINDINGS FOR FEDERAL AWARDS

None

OHIO AUDITOR OF STATE KEITH FABER



**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY**

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 3/30/2023

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

This report is a matter of public record and is available online at
www.ohioauditor.gov