



OHIO AUDITOR OF STATE
KEITH FABER



**EDUCATIONAL SERVICE CENTER OF NORTHEAST OHIO
CUYAHOGA COUNTY
JUNE 30, 2020**

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CUYAHOGA COUNTY
JUNE 30, 2020
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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 Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Northeast Ohio, Cuyahoga County, Ohio (the Service Center), as of and for the year ended June 30, 2020, 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.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Service Center, as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 20 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.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Schedules of Revenue, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual present additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2021, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

March 2, 2021

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Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
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, 2020. 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 2020 include:

- In fiscal year 2020 total assets increased by \$3,686,845 and total liabilities decreased by \$5,056,649. The increase in assets is due to an increase in pooled cash and cash equivalents and intergovernmental receivables. The decrease in liabilities is due to a lower net pension and OPEB liabilities for fiscal year 2020.
- Total revenues decreased by \$506,561 in fiscal year 2020 versus 2019 mainly due to a decrease in charges for services. Total expenses increased by \$12,926,483 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, title VI-B 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, 2020
Unaudited*

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 15. 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, title VI-B 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, 2020
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 2020 compared to 2019:

(Table 1)
Net Position

	Governmental Activities		Change
	2020	2019	
Assets			
Current and Other Assets	\$35,490,362	\$31,606,925	\$3,883,437
Net OPEB Asset	5,212,868	5,053,923	158,945
Capital Assets, Net	10,012,957	10,368,494	(355,537)
<i>Total Assets</i>	50,716,187	47,029,342	3,686,845
Deferred Outflows of Resources			
Pension	20,178,411	32,576,677	(12,398,266)
OPEB	2,032,671	1,213,763	818,908
<i>Deferred Outflows of Resources</i>	22,211,082	33,790,440	(11,579,358)
Liabilities			
Current and Other Liabilities	5,772,020	5,934,212	162,192
Long-Term Liabilities:			
Due Within One Year	1,346,228	1,220,965	(125,263)
Due in More than One Year:			
Net Pension Liability	104,759,934	106,313,690	1,553,756
Net OPEB Liability	13,976,267	17,121,538	3,145,271
Other Amounts Due in More than One Year	1,011,229	1,331,922	320,693
<i>Total Liabilities</i>	126,865,678	131,922,327	5,056,649
Deferred Inflows of Resources			
Pension	6,442,563	6,121,822	(320,741)
OPEB	12,326,416	9,911,772	(2,414,644)
<i>Deferred Inflows of Resources</i>	18,768,979	16,033,594	(2,735,385)
Net Position			
Net Investment in Capital Assets	9,017,053	9,036,813	(19,760)
Restricted	3,507,353	2,855,377	651,976
Unrestricted	(85,231,794)	(79,028,329)	(6,203,465)
<i>Total Net Position</i>	(\$72,707,388)	(\$67,136,139)	(\$5,571,249)

The net pension liability (NPL) is the largest liability reported by the Service Center at June 30, 2020. 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 School District is not responsible for certain key factors affecting the balance of

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
Unaudited*

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 decreased from fiscal year 2019 due to a decrease in total liabilities. 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 decrease in net pension and OPEB liabilities as a result from changes in assumptions and benefit terms related to pensions.

Table 2 shows the change in net position for fiscal year 2020 as compared to fiscal year 2019.

(Table 2)
Change in Net Position
Governmental Activities

	<u>2020</u>	<u>2019</u>	<u>Change</u>
Revenues			
<i>Program Revenues:</i>			
Charges for Services and Sales	\$67,380,454	\$71,582,133	(\$4,201,679)
Operating Grants and Contributions	<u>18,029,937</u>	<u>15,083,548</u>	<u>2,946,389</u>
<i>Total Program Revenues</i>	<u>85,410,391</u>	<u>86,665,681</u>	<u>(1,255,290)</u>
<i>General Revenues:</i>			
Grants and Entitlements	7,036,742	6,790,420	246,322
Investment Earnings	399,889	329,637	70,252
Unrestricted Contributions and Donations	1,837	1,895	(58)
Miscellaneous	<u>1,823,930</u>	<u>1,391,717</u>	<u>432,213</u>
<i>Total General Revenues</i>	<u>9,262,398</u>	<u>8,513,669</u>	<u>748,729</u>
Total Revenues	<u>\$94,672,789</u>	<u>\$95,179,350</u>	<u>(\$506,561)</u>

(continued)

Educational Service Center of Northeast Ohio

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2020
Unaudited*

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

	2020	2019	Change
Program Expenses			
Instruction	\$47,520,968	\$44,010,442	(\$3,510,526)
Support Services:			
Pupil and Instructional Staff	22,846,753	15,425,633	(7,421,120)
Board of Education, Administration, Fiscal and Business	16,508,661	17,006,327	497,666
Operation and Maintenance of Plant	1,766,450	1,696,138	(70,312)
Pupil Transportation	42,384	53,627	11,243
Central	1,148,388	976,485	(171,903)
Operation of Non-Instructional Services	10,314,842	7,936,147	(2,378,695)
Extracurricular Activities	66,745	166,543	99,798
Interest and Fiscal Charges	28,847	46,213	17,366
<i>Total Program Expenses</i>	<u>100,244,038</u>	<u>87,317,555</u>	<u>(12,926,483)</u>
Increase (Decrease) in Net Position	(5,571,249)	7,861,795	(13,433,044)
<i>Net Position Beginning of Year</i>	<u>(67,136,139)</u>	<u>(74,997,934)</u>	<u>7,861,795</u>
<i>Net Position End of Year</i>	<u><u>(\$72,707,388)</u></u>	<u><u>(\$67,136,139)</u></u>	<u><u>\$5,571,249</u></u>

Governmental Activities

The largest component of the increase 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 increased from \$14,494,282 in fiscal year 2019 to \$18,914,793 in fiscal year 2020.

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 (\$14,833,647) *Net Cost of Services 2020* tells the reader that overall these services are not self-supporting and must 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, 2020
Unaudited*

(Table 3)
Governmental Activities

	Total Cost of Services 2020	Net Cost of Services 2020	Total Cost of Services 2019	Net Cost of Services 2019
Instruction	\$47,520,968	\$3,350,603	\$44,010,442	\$11,516,097
Support Services:				
Pupil and Instructional Staff	22,846,753	(2,920,212)	15,425,633	2,628,591
Board of Education, Administration, Fiscal and Business	16,508,661	(16,508,661)	17,006,327	(17,006,327)
Operation and Maintenance of Plant	1,766,450	(67,810)	1,696,138	(49,286)
Pupil Transportation	42,384	(4,788)	53,627	(4,184)
Central	1,148,388	(426,621)	976,485	(273,203)
Operation of Non-Instructional Services	10,314,842	1,766,517	7,936,147	2,590,489
Extracurricular Activities	66,745	6,172	166,543	(7,838)
Interest and Fiscal Charges	28,847	(28,847)	46,213	(46,213)
<i>Totals</i>	<u>\$100,244,038</u>	<u>(\$14,833,647)</u>	<u>\$87,317,555</u>	<u>(\$651,874)</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 \$93,686,712 and total expenditures of \$90,182,325, leaving a fund balance at fiscal year-end of \$21,028,656.

The general fund, the local grants, and miscellaneous federal grants special revenue funds had increases in fund balance of \$2,820,684, \$655,024 and \$26,423 respectively. The Title VI-B special revenue fund had a decrease in fund balance of \$17,235. In comparison, all governmental funds had a total increase of \$3,504,387.

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 an increase in fund balance of \$655,024. The increase in fund balance is due to revenues outpacing expenditures for the fiscal year.

The Title VI-B special revenue fund had a decrease in fund balance of \$17,235. The decrease in fund balance is due to a slower collection of grant revenue in 2020 from the Ohio Department of Education.

The Miscellaneous Federal Grants special revenue fund had an increase in fund balance of \$26,423. 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, 2020
Unaudited

Capital Assets

Table 4 shows fiscal year 2020 balances compared to fiscal year 2019. 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	
	2020	2019
Land	\$549,004	\$549,004
Buildings and Improvements	9,215,493	9,493,968
Furniture and Equipment	248,460	325,522
<i>Total Capital Assets</i>	<u>\$10,012,957</u>	<u>\$10,368,494</u>

The decrease in capital assets is mainly due to depreciation and deletions.

Debt

At the end of fiscal year 2020, the outstanding balance on certificates of participation and the capital leases were \$980,000 and \$15,904, respectively. More detailed information is presented in Notes 13 and 14 of the notes to the basic financial statements.

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, 2020
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, 2020

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$25,590,053
Accrued Interest Receivable	7,701
Accounts Receivable	311,651
Intergovernmental Receivable	9,326,716
Prepaid Items	197,517
Due From Agency Funds	56,724
Net OPEB Asset	5,212,868
Nondepreciable Capital Assets	549,004
Depreciable Capital Assets, Net	<u>9,463,953</u>
<i>Total Assets</i>	<u>50,716,187</u>
Deferred Outflows of Resources	
Pension	20,178,411
OPEB	<u>2,032,671</u>
<i>Total Deferred Outflows of Resources</i>	<u>22,211,082</u>
Liabilities	
Accounts Payable	243,082
Accrued Wages and Benefits	4,190,139
Intergovernmental Payable	850,503
Accrued Interest Payable	2,296
Claims Payable	486,000
Long-Term Liabilities:	
Due Within One Year	1,346,228
Due In More Than One Year:	
Net Pension Liability (See Note 18)	104,759,934
Net OPEB Liability (See Note 19)	13,976,267
Other Amounts Due in More Than One Year	<u>1,011,229</u>
<i>Total Liabilities</i>	<u>126,865,678</u>
Deferred Inflows of Resources	
Pension	6,442,563
OPEB	<u>12,326,416</u>
<i>Total Deferred Inflows of Resources</i>	<u>18,768,979</u>
Net Position	
Net Investment in Capital Assets	9,017,053
Restricted for:	
Capital Outlay	299
Unclaimed Monies	132,189
Other Purposes	3,374,865
Unrestricted (Deficit)	<u>(85,231,794)</u>
<i>Total Net Position</i>	<u><u>(\$72,707,388)</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, 2020

	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	\$10,233,744	\$9,583,702	\$156,854	(\$493,188)
Special	36,324,066	39,610,930	851,092	4,137,956
Vocational	832,266	668,993	0	(163,273)
Other	130,892	0	0	(130,892)
Support Services:				
Pupil	13,921,408	10,375,622	1,519,345	(2,026,441)
Instructional Staff	8,925,345	4,760,860	3,270,714	(893,771)
Board of Education	52,360	0	0	(52,360)
Administration	14,470,363	0	0	(14,470,363)
Fiscal	1,912,089	0	0	(1,912,089)
Business	73,849	0	0	(73,849)
Operation and Maintenance of Plant	1,766,450	1,528,681	169,959	(67,810)
Pupil Transportation	42,384	37,596	0	(4,788)
Central	1,148,388	615,744	106,023	(426,621)
Operation of Non-Instructional Services	10,314,842	125,409	11,955,950	1,766,517
Extracurricular Activities	66,745	72,917	0	6,172
Interest and Fiscal Charges	28,847	0	0	(28,847)
<i>Totals</i>	<u>\$100,244,038</u>	<u>\$67,380,454</u>	<u>\$18,029,937</u>	<u>(14,833,647)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				7,036,742
Investment Earnings				399,889
Unrestricted Contributions and Donations				1,837
Miscellaneous				1,823,930
<i>Total General Revenues</i>				<u>9,262,398</u>
Change in Net Position				(5,571,249)
<i>Net Position Beginning of Year</i>				<u>(67,136,139)</u>
<i>Net Position End of Year</i>				<u>(\$72,707,388)</u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

*Balance Sheet
Governmental Funds
June 30, 2020*

	General	Local Grants	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$17,702,102	\$723,754	\$244,546	\$244,257	\$554,240	\$19,468,899
Receivables:						
Accrued Interest	7,701	0	0	0	0	7,701
Accounts	311,651	0	0	0	0	311,651
Intergovernmental	4,933,582	1,425,484	488,492	1,770,822	708,336	9,326,716
Interfund Receivable	2,026,786	0	0	0	0	2,026,786
Due from Agency Funds	56,724	0	0	0	0	56,724
Prepaid Items	197,517	0	0	0	0	197,517
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	132,189	0	0	0	0	132,189
Total Assets	\$25,368,252	\$2,149,238	\$733,038	\$2,015,079	\$1,262,576	\$31,528,183
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts Payable	\$141,416	\$70,279	\$564	\$25,091	\$5,732	\$243,082
Accrued Wages and Benefits	3,823,144	39,211	147,396	61,767	118,621	4,190,139
Intergovernmental Payable	694,735	19,841	20,576	5,887	109,464	850,503
Interfund Payable	0	0	394,786	930,000	702,000	2,026,786
Total Liabilities	4,659,295	129,331	563,322	1,022,745	935,817	7,310,510
Deferred Inflows of Resources	1,611,033	1,000	139,965	1,169,200	267,819	3,189,017
Fund Balances						
Nonspendable	329,706	0	0	0	0	329,706
Restricted	0	2,018,907	29,751	0	63,308	2,111,966
Assigned	11,735,792	0	0	0	0	11,735,792
Unassigned (Deficit)	7,032,426	0	0	(176,866)	(4,368)	6,851,192
Total Fund Balances (Deficit)	19,097,924	2,018,907	29,751	(176,866)	58,940	21,028,656
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$25,368,252	\$2,149,238	\$733,038	\$2,015,079	\$1,262,576	\$31,528,183

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, 2020*

Total Governmental Fund Balances	\$21,028,656
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	10,012,957
Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds:	
Intergovernmental	1,576,984
Tuition and Fees	1,428,378
Charges for Services	183,211
Reimbursable Expenses	444
Total	3,189,017
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:	
Net Position	5,502,965
Claims Payable	486,000
Total	5,988,965
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.	(2,296)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Certificates of Participation	(980,000)
Capital Leases	(15,904)
Compensated Absences	(1,361,553)
Claims Payable	(486,000)
Total	(2,843,457)
The net pension liability and net OPEB liability/asset is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in the governmental funds:	
Deferred Outflows - Pension	20,178,411
Deferred Inflows - Pension	(6,442,563)
Net Pension Liability	(104,759,934)
Deferred Outflows - OPEB	2,032,671
Deferred Inflows - OPEB	(12,326,416)
Net OPEB Liability	(13,976,267)
Net OPEB Asset	5,212,868
Total	(110,081,230)
<i>Net Position of Governmental Activities</i>	<i>(\$72,707,388)</i>

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, 2020

	General	Local Grants	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Intergovernmental	\$7,362,171	\$7,792,975	\$2,851,343	\$3,016,231	\$2,095,762	\$23,118,482
Interest	399,889	0	0	0	0	399,889
Tuition and Fees	28,148,402	0	0	0	0	28,148,402
Rentals	1,463,010	0	0	0	0	1,463,010
Charges for Services	36,778,839	0	0	0	0	36,778,839
Contributions and Donations	1,837	1,952,323	0	0	0	1,954,160
Miscellaneous	1,391,530	95,569	0	0	336,831	1,823,930
<i>Total Revenues</i>	<u>75,545,678</u>	<u>9,840,867</u>	<u>2,851,343</u>	<u>3,016,231</u>	<u>2,432,593</u>	<u>93,686,712</u>
Expenditures						
Current:						
Instruction:						
Regular	9,996,019	3	0	0	118,312	10,114,334
Special	30,481,637	0	344,343	0	131,446	30,957,426
Vocational	698,349	0	0	0	0	698,349
Student Intervention Services	130,000	0	0	0	0	130,000
Support Services:						
Pupil	10,250,505	9,202	21,624	525,513	670,242	11,477,086
Instructional Staff	4,898,453	40,094	1,487,328	204,240	872,306	7,502,421
Board of Education	52,003	0	0	0	0	52,003
Administration	12,044,466	1,020,362	467,420	122,295	128,940	13,783,483
Fiscal	1,738,025	43	54,704	18,660	48,568	1,860,000
Business	69,816	0	0	0	0	69,816
Operation and Maintenance of Plant	1,597,307	0	127,529	0	0	1,724,836
Pupil Transportation	39,284	0	0	0	0	39,284
Central	638,699	0	0	373,701	99,171	1,111,571
Operation of Non-Instructional Services	0	8,116,139	357,226	1,745,399	7,994	10,226,758
Extracurricular Activities	65,910	0	0	0	0	65,910
Debt Service:						
Principal Retirement	22,749	0	8,028	0	305,000	335,777
Interest and Fiscal Charges	1,064	0	376	0	31,831	33,271
<i>Total Expenditures</i>	<u>72,724,286</u>	<u>9,185,843</u>	<u>2,868,578</u>	<u>2,989,808</u>	<u>2,413,810</u>	<u>90,182,325</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>2,821,392</u>	<u>655,024</u>	<u>(17,235)</u>	<u>26,423</u>	<u>18,783</u>	<u>3,504,387</u>
Other Financing Sources						
Transfer In	0	0	0	0	708	708
Transfer Out	(708)	0	0	0	0	(708)
<i>Total Other Financing Sources</i>	<u>(708)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>708</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	2,820,684	655,024	(17,235)	26,423	19,491	3,504,387
<i>Fund Balances (Deficit) Beginning of Year</i>	16,277,240	1,363,883	46,986	(203,289)	39,449	17,524,269
<i>Fund Balances (Deficit) End of Year</i>	<u>\$19,097,924</u>	<u>\$2,018,907</u>	<u>\$29,751</u>	<u>(\$176,866)</u>	<u>\$58,940</u>	<u>\$21,028,656</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, 2020*

Net Change in Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the statement of activities are different because: \$3,504,387

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 depreciation exceeded capital outlays in the current period:

Capital Asset Additions	150,833	
Current Year Depreciation	(505,568)	
Total	(354,735)	(354,735)

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. (802)

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

Intergovernmental	(4,126)	
Tuition and Fees	1,284,558	
Charges for Services	(294,355)	
Reimbursable Expenses	(1,024)	
Total	985,053	985,053

Repayment of certificates of participation and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 335,777

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. 4,424

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. (140,347)

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. (448,235)

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

Pension	7,749,542	
OPEB	88,890	
Total	7,838,432	7,838,432

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	(18,914,793)	
OPEB	1,619,590	
Total	(17,295,203)	(17,295,203)

Change in Net Position of Governmental Activities (\$5,571,249)

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Fund Net Position

Internal Service Fund

June 30, 2020

Assets	
Equity in Pooled Cash and Cash Equivalents	\$5,988,965
Liabilities	
Claims Payable	<u>486,000</u>
Net Position	
Unrestricted	<u><u>\$5,502,965</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, 2020*

Operating Revenues	
Charges for Services	<u>\$9,619,822</u>
Operating Expenses	
Purchased Services	3,149,034
Claims	<u>6,919,023</u>
<i>Total Operating Expenses</i>	<u>10,068,057</u>
<i>Change in Net Position</i>	(448,235)
<i>Net Position Beginning of Year</i>	<u>5,951,200</u>
<i>Net Position End of Year</i>	<u><u>\$5,502,965</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, 2020

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Interfund Services Provided	\$9,619,822
Cash Payments for Claims	(7,001,023)
Cash Payments for Services	<u>(3,149,034)</u>

Net Decrease in Cash and Cash Equivalents (530,235)

Cash and Cash Equivalents Beginning of Year 6,519,200

Cash and Cash Equivalents End of Year \$5,988,965

***Reconciliation of Operating Loss to
Net Cash Used for Operating Activities***

Operating Loss (\$448,235)

Adjustments

Decrease in Current Liabilities	
Claims Payable	<u>(82,000)</u>

Net Cash Used for Operating Activities (\$530,235)

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

Statement of Fiduciary Assets and Liabilities

Agency Funds

June 30, 2020

Assets	
Intergovernmental Receivable	<u>\$12,985</u>
Liabilities	
Accounts Payable	12,985
Due to Governmental Funds	<u>56,724</u>
<i>Total Liabilities</i>	<u>69,709</u>
Net Assets	
Unrestricted (Deficit)	<u><u>(\$56,724)</u></u>

See accompanying notes to the basic financial statements

Educational Service Center of Northeast Ohio

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

Note 1 – Description of the Service Center

In 1914, the Educational Service Center of Cuyahoga County (the Service Center) was formed. The Service Center supplies special education, supervisory, administrative, fiscal and other needed services to area school districts in Cuyahoga, Geauga, Lake, Lorain, Portage and Summit Counties.

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 400,000 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 15 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, 2020*

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, 2020

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.

Title VI-B Fund The title VI-B special revenue fund accounts for and reports restricted Federal grant monies used to assist schools in the identification of handicapped children, development of procedural safeguards, implementation of least restrictive alternative service patterns, and provision of full educational opportunities to handicapped children at the preschool, elementary and secondary levels.

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 trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Service Center's agency funds report resources that belong to 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.

Educational Service Center of Northeast Ohio

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

Like the government-wide statements, the internal service fund is 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 this fund are included on the statement of fund net position. The statement of changes in fund net position presents increases (e.g., revenues) and decreases (e.g., expenses) in net total position. The statement of cash flows provides information about how the Service Center finances and meets the cash flow needs of its internal service 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 position 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 18 and 19.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Service Center, deferred inflows of resources include pension, OPEB plans and unavailable revenue. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will

Educational Service Center of Northeast Ohio

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

not be collected within the available period. For the Service Center, unavailable revenue includes intergovernmental, tuition and fees, rentals, charges for services and miscellaneous revenues. 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 Government Fund Balances to Net Position of Governmental Activities found on page 18. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 18 and 19)

Pensions/Other Postemployment Benefits (OPEB)

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

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 2020, investments were limited to mutual funds, commercial paper, federal home loan mortgage corporation notes 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.

During fiscal year 2020, 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.

For fiscal year 2020, 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 \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Educational Service Center of Northeast Ohio

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

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 2020 amounted to \$399,889 which includes \$35,941 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.

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 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:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	75 years
Building Improvements	15 years
Furniture and Equipment	5-20 years

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.

Educational Service Center of Northeast Ohio

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

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.

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.

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 III, preschool disabilities, improving teacher quality and various local grants.

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.

Educational Service Center of Northeast Ohio

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

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 Statute. 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.

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.

Educational Service Center of Northeast Ohio

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

Note 3 – Change in Accounting Principle

Change in Accounting Principles

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

For fiscal year 2020, the School District also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2018-1*. These changes were incorporated in the School District's 2020 financial statements; however, there was no effect on beginning net position/fund balance.

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:

Fund Balances	General	Local Grants	Title VI-B	Miscellaneous Federal Grants	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepays	\$197,517	\$0	\$0	\$0	\$0	\$197,517
Unclaimed Monies	132,189	0	0	0	0	132,189
<i>Total Nonspendable</i>	<u>329,706</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>329,706</u>
<i>Restricted for</i>						
Capital Improvements	0	0	0	0	299	299
Various State Grants	0	0	0	0	41,644	41,644
Various Local Grants	0	2,018,907	0	0	0	2,018,907
Title VI-B	0	0	29,751	0	0	29,751
Miscellaneous Federal Grants	0	0	0	0	21,365	21,365
<i>Total Restricted</i>	<u>0</u>	<u>2,018,907</u>	<u>29,751</u>	<u>0</u>	<u>63,308</u>	<u>2,111,966</u>
<i>Assigned to</i>						
Positive Education Programs	10,035,137	0	0	0	0	10,035,137
Purchases on Order:						
Instructional Services	331,152	0	0	0	0	331,152
Support Services	1,369,275	0	0	0	0	1,369,275
Extracurricular Activities	228	0	0	0	0	228
<i>Total Assigned</i>	<u>11,735,792</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,735,792</u>
<i>Unassigned (Deficit)</i>	<u>7,032,426</u>	<u>0</u>	<u>0</u>	<u>(176,866)</u>	<u>(4,368)</u>	<u>6,851,192</u>
<i>Total Fund Balances (Deficit)</i>	<u>\$19,097,924</u>	<u>\$2,018,907</u>	<u>\$29,751</u>	<u>(\$176,866)</u>	<u>\$58,940</u>	<u>\$21,028,656</u>

Educational Service Center of Northeast Ohio

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

Note 5 – Fund Deficits

Fund balances at June 30, 2020, included the following individual fund deficits:

<i>Special Revenue Funds:</i>	
LEP/Immigrant Title III Fund	\$4,368
Miscellaneous Federal Grants	176,866

The special revenue funds deficits are due to adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides transfers when cash is required, rather than when accruals occur.

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;

Educational Service Center of Northeast Ohio

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

4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met. 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, 2020, \$5,738,390 of the Service Center's total bank balance of \$14,826,071 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

Educational Service Center of Northeast Ohio

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

Investments

As of June 30, 2020, the Service Center had the following investments. All investments are in an internal investment pool.

Measurement/Investment	Measurement Amount	Maturity	Standard & Poor's Rating	Percent of Total Investments
Amortized Cost:				
Mutual Funds	\$301,855	Daily	N/A	4.49 %
Fair Value - Level Two Inputs:				
Commercial Paper	721,490	Less than One Year	AA+	10.74
Federal Home Loan Mortgage Corporation Notes	200,000	Less than Four Years	AA+	2.98
Total Fair Value - Level Two Inputs	921,490			
Net Asset Value Per Share:				
STAR Ohio	5,493,283	Average 41.5 Days	AAAm	N/A
<i>Totals</i>	<u>\$6,716,628</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, 2020. The Money Market Mutual Fund is measured at amortized cost. 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, 2020*

Note 7 – Receivables

Receivables at June 30, 2020, consisted of accounts, accrued interest and intergovernmental grants. All receivables 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	\$4,933,582
Miscellaneous Federal Grants	1,770,822
Local Grants	1,425,484
Title VI-B Grant	488,492
Peer Assistance Grant	412,396
Title III Grant	135,250
Title I Grant	73,442
Improving Teacher Quality Grant	57,612
Preschool Disabilities Grant	27,695
E-Rate	<u>1,941</u>
Total	<u><u>\$9,326,716</u></u>

Note 8 – State Funding

The Service Center, under State law, provides supervisory 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 supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the 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 supervisory 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.

The Service Center also receives funding from the State Department of Education in the amount of \$35 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center's territory and all of the Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the 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.

Educational Service Center of Northeast Ohio

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

Note 9 – Capital Assets

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

	Balance 6/30/19	Additions	Deletions	Balance 6/30/20
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			11,354,255
Furniture and Equipment	1,612,209	150,833	(222,408)	1,540,634
<i>Total Capital Assets, being depreciated</i>	<u>12,966,464</u>	<u>150,833</u>	<u>(222,408)</u>	<u>12,894,889</u>
Less Accumulated Depreciation				
Buildings and Improvements	(1,860,287)	(278,475)		(2,138,762)
Furniture and Equipment	(1,286,687)	(227,093)	221,606	(1,292,174)
<i>Total Accumulated Depreciation</i>	<u>(3,146,974)</u>	<u>(505,568) *</u>	<u>221,606</u>	<u>(3,430,936)</u>
Total Capital Assets, being depreciated, net	<u>9,819,490</u>	<u>(354,735)</u>	<u>(802)</u>	<u>9,463,953</u>
Governmental Activities Capital Assets, Net	<u>\$10,368,494</u>	<u>(\$354,735)</u>	<u>(\$802)</u>	<u>\$10,012,957</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$14,743
Support Services:	
Pupil	19,823
Instructional Staff	87,664
Administration	91,414
Fiscal	18,525
Central	8,180
Operation of Non-Instructional Services	29,832
Extracurricular Activities	380
Building Acquisition	235,007
Total Depreciation Expense	<u>\$505,568</u>

Educational Service Center of Northeast Ohio

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

Note 10 – Interfund Transactions

Interfund balances at June 30, 2020, consist of the following individual fund receivables and payables:

Interfund Payable	Interfund Receivable General
<i>Governmental Activities</i>	
Major Fund:	
Title VI-B	\$394,786
Miscellaneous Federal Grants	930,000
Other Governmental Funds:	
EMIS	1,000
Peer Assistance	290,000
Improving Teacher Quality	89,000
Preschool Disabilities	140,000
Title I	52,000
Title III	130,000
<i>Total Governmental Funds</i>	<u>\$2,026,786</u>
<i>Due from Agency Funds</i>	<u>\$56,724</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 agency funds is to cover insufficient funds in the agency 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.

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.

Educational Service Center of Northeast Ohio

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

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 2020, 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	2,000,000
General Annual Aggregate	2,000,000
Fire Legal Liability	500,000
Sexual Misconduct & Molestation Liability	1,000,000
Medical Expense Limit	15,000
Property:	
Blanket Building and Contents	14,572,150
Educators' Legal Liability:	
Errors or Omissions Coverage	1,000,000
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 Sheakley UniServices, Incorporated provides administrative, cost control and actuarial services to the Service Center.

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 \$2,271.48 for family coverage and \$767.39 for single coverage. The Service Center has stop loss coverage per family per year and a calculated aggregate maximum stop loss coverage for the 2020 plan year (July through June) that begins at \$8,186,437.

Educational Service Center of Northeast Ohio

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

The claims liability of \$486,000 reported in the self insurance fund at June 30, 2020 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 2019 and 2020 are as follows:

	Balance at Beginning of Year	Current Year Claims	Claim Payments	Balance at End of Year
2019	\$425,000	6,504,699	6,361,699	\$568,000
2020	568,000	6,919,023	7,001,023	486,000

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 purchases 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.

Note 13 – Long-Term Obligations

The changes in the Service Center's long-term obligations during fiscal year 2020 were as follows:

	Outstanding June 30, 2019	Additions	Deductions	Outstanding June 30, 2020	Due Within One Year
<i>Certificates of Participation:</i>					
2013 Certificates of Participation	\$1,130,000	\$0	\$270,000	\$860,000	\$280,000
2014 Certificates of Participation	155,000	0	35,000	120,000	40,000
<i>Total Certificates of Participation</i>	1,285,000	0	305,000	980,000	320,000
<i>Other Long-term Obligations:</i>					
Capital Leases	46,681	0	30,777	15,904	15,904
Compensated Absences	1,221,206	1,025,535	885,188	1,361,553	1,010,324
<i>Total Other Long-term Obligations</i>	\$1,267,887	\$1,025,535	\$915,965	\$1,377,457	\$1,026,228

(continued)

Educational Service Center of Northeast Ohio

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

	Outstanding June 30, 2019	Additions	Deductions	Outstanding June 30, 2020	Due Within One Year
Net Pension Liability					
SERS	\$37,159,073	\$0	\$2,002,235	\$35,156,838	\$0
STRS	69,154,617	448,479	0	69,603,096	0
<i>Total Net Pension Liability</i>	<u>106,313,690</u>	<u>448,479</u>	<u>2,002,235</u>	<u>104,759,934</u>	<u>0</u>
Net OPEB Liability					
SERS	17,121,538	0	3,145,271	13,976,267	0
Total	<u>\$125,988,115</u>	<u>\$1,474,014</u>	<u>\$6,368,471</u>	<u>\$121,093,658</u>	<u>\$1,346,228</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.

Principal and interest requirements to retire the Certificates of Participation outstanding at June 30, 2020 are as follows:

Fiscal Year Ending June 30	Certificates of Participation	
	Principal	Interest
2021	\$320,000	\$23,050
2022	325,000	13,981
2023	335,000	4,706
Total	<u>\$980,000</u>	<u>\$41,737</u>

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The certificates of participation will be paid from the general fund. The capital leases will be paid from the general fund and title VI-B special revenue fund. Compensated absences will be paid from the general fund, and the local grants, peer assistance and title VI-B 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, title VI-B, preschool disabilities, improving teacher quality and miscellaneous federal grants. For additional information related to the net pension and net OPEB liabilities see Notes 18 and 19.

Note 14 – Capital Leases

The Service Center has entered into capitalized leases for copiers. The leases meet the criteria for capital leases. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds.

The assets acquired through the capital leases are as follows:

Assets:	
Copiers	\$544,701
Less: Accumulated Depreciation	<u>(510,053)</u>
Total Book Value as of June 30, 2020	<u><u>\$34,648</u></u>

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2020.

Fiscal Year Ended June 30	Governmental Activities
2021	\$16,109
Less: Amounts Representing Interest	<u>(205)</u>
Present Value of Minimum Lease Payments	<u><u>\$15,904</u></u>

Note 15 – 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 \$271,009 to Connect during the fiscal year 2020.

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 did not make any contributions to the PEP in fiscal year 2020. 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 25 participating members. All members pay an insurance premium directly to the consortium. The Service Center paid \$2,455,071 in the form of health care and life insurance premiums to the consortium during the fiscal year 2020.

Note 16 - 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:

General	\$1,807,309
Local Grants	1,198,188
Title VI-B	109,544
Miscellaneous Federal Grants	165,036
Other Governmental Funds	<u>295,474</u>
Total	<u>\$3,575,551</u>

Note 17 – 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, 2020, if applicable, cannot be determined at this time.

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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 adjustments and they did not have any significant impact on the Service Center's funding.

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, 2020.

Note 18 - Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability

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) represent 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

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exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan’s unfunded benefits is presented as a *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 19 for the required OPEB disclosures.

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

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

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

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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 employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Service Center's contractually required contribution to SERS was \$2,892,567 for fiscal year 2020. Of this amount \$152,832 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

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

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

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

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

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

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

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

choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age fifty and after termination of employment.

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

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

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

The Service Center's contractually required contribution to STRS was \$4,856,975 for fiscal year 2020. Of this amount \$334,368 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, 2019, 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:			
Prior Measurement Date	0.64881919%	0.31451423%	
Current Measurement Date	<u>0.58759500%</u>	<u>0.31474107%</u>	
Change in Proportionate Share	<u>-0.06122419%</u>	<u>0.00022684%</u>	
Proportionate Share of the Net			
Pension Liability	\$35,156,838	\$69,603,096	\$104,759,934
Pension Expense	\$4,617,238	\$14,297,555	\$18,914,793

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At June 30, 2020, the Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$891,499	\$566,686	\$1,458,185
Changes of assumptions	0	8,176,227	8,176,227
Changes in proportionate Share and difference between Service Center contributions and proportionate share of contributions	9,441	2,785,016	2,794,457
Service Center contributions subsequent to the measurement date	2,892,567	4,856,975	7,749,542
Total Deferred Outflows of Resources	<u>\$3,793,507</u>	<u>\$16,384,904</u>	<u>\$20,178,411</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$0	\$301,298	\$301,298
Net difference between projected and actual earnings on pension plan investments	451,282	3,401,822	3,853,104
Changes in Proportionate Share and Difference between Service Center contributions and proportionate share of contributions	2,154,413	133,748	2,288,161
Total Deferred Inflows of Resources	<u>\$2,605,695</u>	<u>\$3,836,868</u>	<u>\$6,442,563</u>

\$7,749,542 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 year ending June 30, 2021. 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:			
2021	(\$493,183)	\$6,850,097	\$6,356,914
2022	(1,437,472)	892,083	(545,389)
2023	(30,029)	(430,241)	(460,270)
2024	255,929	379,122	635,051
Total	<u>(\$1,704,755)</u>	<u>\$7,691,061</u>	<u>\$5,986,306</u>

Actuarial Assumptions - SERS

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

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

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, 2019, are presented below:

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

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

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

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

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

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

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Service Center's proportionate share of the net pension liability	\$49,267,300	\$35,156,838	\$23,323,451

Actuarial Assumptions - STRS

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

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

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

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

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

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

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

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

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

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

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Service Center's proportionate share of the net pension liability	\$101,717,171	\$69,603,096	\$42,416,887

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Note 19 - Defined Benefit OPEB Plans

See note 18 for a description of the net OPEB liability

Plan Description - 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. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

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

For fiscal year 2020, the Service Center's surcharge obligation was \$88,890.

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 \$88,890 for fiscal year 2020. Of this amount \$88,890 is reported as an intergovernmental payable.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization,

Educational Service Center of Northeast Ohio

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

physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

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

OPEB Liabilities, 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, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The 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:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability:			
Prior Measurement Date	0.61715471%	0.31451423%	
Current Measurement Date	<u>0.55576274%</u>	<u>0.31474107%</u>	
Change in Proportionate Share	<u>-0.06139197%</u>	<u>0.00022684%</u>	
Proportionate Share of the:			
Net OPEB Liability	\$13,976,267	\$0	\$13,976,267
Net OPEB (Asset)	\$0	(\$5,212,868)	(\$5,212,868)
OPEB Expense	(\$37,896)	(\$1,581,694)	(\$1,619,590)

At June 30, 2020, the Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Deferred Outflows of Resources			
Differences between expected and actual experience	\$205,161	\$472,583	\$677,744
Changes of assumptions	1,020,807	109,574	1,130,381
Net difference between projected and actual earnings on OPEB plan investments	33,548	0	33,548
Changes in proportionate Share and difference between Service Center contributions and proportionate share of contributions	0	102,108	102,108
Service Center contributions subsequent to the measurement date	<u>88,890</u>	<u>0</u>	<u>88,890</u>
Total Deferred Outflows of Resources	<u>\$1,348,406</u>	<u>\$684,265</u>	<u>\$2,032,671</u>

Educational Service Center of Northeast Ohio

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

	SERS	STRS	Total
Deferred Inflows of Resources			
Differences between expected and actual experience	\$3,070,490	\$265,210	\$3,335,700
Changes of assumptions	783,187	5,715,298	6,498,485
Net difference between projected and actual earnings on OPEB plan investments	0	327,406	327,406
Changes in Proportionate Share and Difference between Service Center contributions and proportionate share of contributions	2,164,825	0	2,164,825
Total Deferred Inflows of Resources	\$6,018,502	\$6,307,914	\$12,326,416

\$88,890 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 in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	SERS	STRS	Total
Fiscal Year Ending June 30:			
2021	(\$1,269,686)	(\$1,230,075)	(\$2,499,761)
2022	(810,784)	(1,230,078)	(2,040,862)
2023	(800,936)	(1,098,859)	(1,899,795)
2024	(802,538)	(1,052,826)	(1,855,364)
2025	(742,615)	(1,027,026)	(1,769,641)
Thereafter	(332,427)	15,215	(317,212)
Total	(\$4,758,986)	(\$5,623,649)	(\$10,382,635)

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.

Educational Service Center of Northeast Ohio

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

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

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

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 18.

Discount Rate The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019, was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity

Educational Service Center of Northeast Ohio

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

General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

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

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
Service Center's proportionate share of the net OPEB liability	\$16,964,534	\$13,976,267	\$11,600,240

	1% Decrease (6.00 % decreasing to 3.75%)	Current Trend Rate (7.00 % decreasing to 4.75%)	1% Increase (8.00 % decreasing to 5.75%)
Service Center's proportionate share of the net OPEB liability	\$11,197,819	\$13,976,267	\$17,662,588

Actuarial Assumptions – STRS

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

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

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

Educational Service Center of Northeast Ohio

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 18.

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

Sensitivity of the Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Service Center's proportionate share of the net OPEB asset	(\$4,448,144)	(\$5,212,868)	(\$5,855,821)
	1% Decrease	Current Trend Rate	1% Increase
Service Center's proportionate share of the net OPEB asset	(\$5,911,152)	(\$5,212,868)	(\$4,357,637)

Educational Service Center of Northeast Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2020

Note 20 – 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. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Service Center. The Service Center's investment portfolio and the investments of the pension and other employee benefit plans in which the Service Center participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Service Center's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

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 Seven Fiscal Years (1)

	2020	2019	2018
Service Center's Proportion of the Net Pension Liability	0.58759500%	0.64881919%	0.66195062%
Service Center's Proportionate Share of the Net Pension Liability	\$35,156,838	\$37,159,073	\$39,550,086
Service Center's Covered Payroll	\$19,903,785	\$20,457,600	\$21,238,157
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	176.63%	181.64%	186.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.85%	71.36%	69.50%

(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

2017	2016	2015	2014
0.66099505%	0.58971480%	0.59607500%	0.59607500%
\$48,378,737	\$33,649,701	\$30,167,099	\$35,446,764
\$20,783,264	\$17,974,831	\$17,325,057	\$17,327,092
232.78%	187.20%	174.12%	204.57%
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 Four Fiscal Years (1)

	2020	2019	2018
Service Center's Proportion of the Net OPEB Liability	0.55576274%	0.61715471%	0.62233181%
Service Center's Proportionate Share of the Net OPEB Liability	\$13,976,267	\$17,121,538	\$16,701,751
Service Center's Covered Payroll	\$19,903,785	\$20,457,600	\$21,238,157
Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	70.22%	83.69%	78.64%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	15.57%	13.57%	12.46%

(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

2017

0.62402525%

\$17,787,028

\$20,783,264

85.58%

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 Seven Fiscal Years (1)

	2020	2019	2018
Service Center's Proportion of the Net Pension Liability	0.31474107%	0.31451423%	0.31147660%
Service Center's Proportionate Share of the Net Pension Liability	\$69,603,096	\$69,154,617	\$73,991,935
Service Center's Covered Payroll	\$36,763,971	\$35,827,814	\$34,363,893
Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	189.32%	193.02%	215.32%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.40%	77.30%	75.30%

(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

2017	2016	2015	2014
0.31112990%	0.26715863%	0.23536772%	0.23536772%
\$104,144,556	\$73,834,832	\$57,249,575	\$68,195,319
\$33,105,550	\$27,969,093	\$23,804,507	\$22,450,062
314.58%	263.99%	240.50%	303.76%
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 Four Fiscal Years (1)

	2020	2019	2018
Service Center's Proportion of the Net OPEB Liability (Asset)	0.31474107%	0.31451423%	0.31147660%
Service Center's Proportionate Share of the Net OPEB Liability (Asset)	(\$5,212,868)	(\$5,053,923)	\$12,152,667
Service Center's Covered Payroll	\$36,763,971	\$35,827,814	\$34,363,893
Service Center's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	-14.18%	-14.11%	35.36%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	174.70%	176.00%	47.10%

(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

2017

0.31112990%

\$16,639,308

\$33,105,550

50.26%

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

	2020	2019	2018	2017
Net Pension Liability				
Contractually Required Contribution	\$2,892,567	\$2,687,011	\$2,761,776	\$2,973,342
Contributions in Relation to the Contractually Required Contribution	(2,892,567)	(2,687,011)	(2,761,776)	(2,973,342)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Service Center Covered Payroll (1)	\$20,661,193	\$19,903,785	\$20,457,600	\$21,238,157
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>13.50%</u>	<u>13.50%</u>	<u>14.00%</u>
Net OPEB Liability				
Contractually Required Contribution (2)	88,890	222,482	262,057	115,321
Contributions in Relation to the Contractually Required Contribution	(88,890)	(222,482)	(262,057)	(115,321)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.43%</u>	<u>1.12%</u>	<u>1.28%</u>	<u>0.54%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>14.43%</u>	<u>14.62%</u>	<u>14.78%</u>	<u>14.54%</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

2016	2015	2014	2013	2012	2011
\$2,909,657	\$2,369,083	\$2,401,253	\$2,398,069	\$1,583,669	\$2,402,344
(2,909,657)	(2,369,083)	(2,401,253)	(2,398,069)	(1,583,669)	(2,402,344)
\$0	\$0	\$0	\$0	\$0	\$0
\$20,783,264	\$17,974,831	\$17,325,057	\$17,327,092	\$11,774,488	\$19,111,727
14.00%	13.18%	13.86%	13.84%	13.45%	12.57%
122,855	193,219	66,748	69,323	300,250	557,760
(122,855)	(193,219)	(66,748)	(69,323)	(300,250)	(557,760)
\$0	\$0	\$0	\$0	\$0	\$0
0.59%	1.07%	0.39%	0.40%	2.55%	2.92%
14.59%	14.25%	14.25%	14.24%	16.00%	15.49%

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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Pension Liability				
Contractually Required Contribution	\$4,856,975	\$5,146,956	\$5,015,894	\$4,810,945
Contributions in Relation to the Contractually Required Contribution	<u>(4,856,975)</u>	<u>(5,146,956)</u>	<u>(5,015,894)</u>	<u>(4,810,945)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Service Center Covered Payroll (1)	\$34,692,679	\$36,763,971	\$35,827,814	\$34,363,893
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>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
\$4,634,777	\$3,915,673	\$3,094,586	\$2,918,508	\$2,238,018	\$2,957,596
<u>(4,634,777)</u>	<u>(3,915,673)</u>	<u>(3,094,586)</u>	<u>(2,918,508)</u>	<u>(2,238,018)</u>	<u>(2,957,596)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$33,105,550	\$27,969,093	\$23,804,507	\$22,450,062	\$17,215,523	\$22,750,738
<u>14.00%</u>	<u>14.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$0	\$0	\$238,045	\$224,501	\$172,155	\$227,507
<u>0</u>	<u>0</u>	<u>(238,045)</u>	<u>(224,501)</u>	<u>(172,155)</u>	<u>(227,507)</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>1.00%</u>	<u>1.00%</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, 2020

Net Pension Liability

Changes in Assumptions – SERS

Beginning in fiscal year 2018, an assumption of 2.5 percent was used for COLA or Ad Hoc Cola. Prior to 2018, an assumption of 3 percent was used.

Beginning with fiscal year 2017, amounts reported 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 fiscal year 2016 and prior are presented below:

	Fiscal Year 2017	Fiscal Year 2016 and Prior
Wage Inflation	3.00 percent	3.25 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent	4.00 percent to 22.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation	7.75 percent net of investments expense, including inflation

Beginning with fiscal year 2017, mortality assumptions 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 2018, 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 year 2017 and prior are presented below:

	Fiscal Year 2018	Fiscal Year 2017 and Prior
Inflation	2.50 percent	2.75 percent
Projected salary increases	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	7.45 percent, net of investment expenses, including inflation	7.75 percent, net of investment expenses, including inflation
Payroll Increases	3 percent	3.5 percent
Cost-of-Living Adjustments (COLA)	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 Annuity 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

Educational Service Center of Northeast Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2020

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

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 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 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.

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.

Educational Service Center of Northeast Ohio

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 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.

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.

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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$7,388,250	
Interest			236,856	
Tuition and Fees			28,879,212	
Rentals			1,465,860	
Charges for Services			37,494,989	
Contributions and Donations			1,837	
Miscellaneous			1,728,361	
<i>Total Revenues</i>			<u>77,195,365</u>	
Expenditures				
Current:				
Instruction:				
Regular	10,889,207	10,939,253	10,065,649	873,604
Special	33,159,026	33,311,421	30,651,186	2,660,235
Vocational	753,376	756,839	696,398	60,441
Other	140,636	141,283	130,000	11,283
Support Services:				
Pupil	11,009,409	11,060,007	10,176,760	883,247
Instructional Staff	5,416,379	5,441,273	5,006,735	434,538
Board of Education	60,645	60,923	56,058	4,865
Administration	14,268,590	14,334,167	13,189,447	1,144,720
Fiscal	2,048,667	2,058,083	1,893,725	164,358
Business	87,546	87,949	80,925	7,024
Operation and Maintenance of Plant	1,853,476	1,861,994	1,713,296	148,698
Pupil Transportation	47,995	48,215	44,365	3,850
Central	756,093	759,568	698,909	60,659
Extracurricular Activities	82,667	83,045	76,414	6,631
Debt Service:				
Principal Retirement	305,000	305,000	305,000	0
Interest and Fiscal Charges	31,831	31,831	31,831	0
<i>Total Expenditures</i>	<u>80,910,543</u>	<u>81,280,851</u>	<u>74,816,698</u>	<u>6,464,153</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(80,910,543)</u>	<u>(81,280,851)</u>	<u>2,378,667</u>	
Other Financing Sources (Uses)				
Advances In			1,305,000	
Advances Out			(1,977,000)	
Transfers Out			(708)	
<i>Total Other Financing Sources (Uses)</i>			<u>(672,708)</u>	
<i>Net Change in Fund Balance</i>			1,705,959	
<i>Fund Balance Beginning of Year</i>			10,303,603	
Prior Year Encumbrances Appropriated			1,977,543	
<i>Fund Balance End of Year</i>			<u>\$13,987,105</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, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$8,019,209	
Contributions and Donations			1,952,323	
Miscellaneous			95,569	
<i>Total Revenues</i>			<u>10,067,101</u>	
Expenditures				
Current:				
Support Services:				
Pupil	9,013	9,449	9,202	247
Instructional Staff	102,319	107,257	104,458	2,799
Administration	1,475,771	1,546,985	1,506,617	40,368
Fiscal	43	43	43	0
Operation of Non-Instructional Services	8,774,395	9,197,807	8,957,796	240,011
<i>Total Expenditures</i>	<u>10,361,541</u>	<u>10,861,541</u>	<u>10,578,116</u>	<u>283,425</u>
<i>Net Change in Fund Balance</i>			(511,015)	
<i>Fund Deficit Beginning of Year</i>			(1,093,617)	
Prior Year Encumbrances Appropriated			<u>1,061,541</u>	
<i>Fund Deficit End of Year</i>			<u><u>(\$543,091)</u></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
Title VI-B Fund
For the Fiscal Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental			\$2,826,620	
Expenditures				
Current:				
Instruction:				
Special	343,158	382,837	344,262	38,575
Support Services:				
Pupil	22,312	24,892	22,384	2,508
Instructional Staff	1,532,855	1,710,098	1,537,789	172,309
Administration	470,246	524,621	471,760	52,861
Fiscal	66,044	73,681	66,257	7,424
Operation and Maintenance of Plant	135,497	151,164	135,933	15,231
Operation of Non-Instructional Services	354,817	395,843	355,958	39,885
<i>Total Expenditures</i>	<u>2,924,929</u>	<u>3,263,136</u>	<u>2,934,343</u>	<u>328,793</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(2,924,929)</u>	<u>(3,263,136)</u>	<u>(107,723)</u>	
Other Financing Sources (Uses)				
Advances In			345,000	
Advances Out			<u>(247,000)</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>98,000</u>	
<i>Net Change in Fund Balance</i>			(9,723)	
<i>Fund Balance Beginning of Year</i>			2,522	
Prior Year Encumbrances Appropriated			<u>74,929</u>	
<i>Fund Balance End of Year</i>			<u><u>\$67,728</u></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
For the Fiscal Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental			\$2,655,981	
Expenditures				
Support Services:				
Pupil	647,916	742,983	575,132	167,851
Instructional Staff	259,838	297,964	230,649	67,315
Administration	134,395	154,115	119,298	34,817
Fiscal	24,060	27,590	21,357	6,233
Central	495,350	568,031	439,704	128,327
Operation of Non-Instructional Services	1,982,432	2,273,308	1,759,733	513,575
<i>Total Expenditures</i>	<u>3,543,991</u>	<u>4,063,991</u>	<u>3,145,873</u>	<u>918,118</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,543,991)</u>	<u>(4,063,991)</u>	<u>(489,892)</u>	
Other Financing Sources (Uses)				
Advances In			930,000	
Advances Out			<u>(778,000)</u>	
<i>Total Other Financing Sources (Uses)</i>			<u>152,000</u>	
<i>Net Change in Fund Balance</i>			(337,892)	
<i>Fund Balance Beginning of Year</i>			57,594	
Prior Year Encumbrances Appropriated			<u>293,991</u>	
<i>Fund Balance End of Year</i>			<u><u>\$13,693</u></u>	

See accompanying notes to the supplemental information

Educational Service Center of Northeast Ohio

*Notes to the Additional Supplementary Information
For the Fiscal Year Ended June 30, 2020*

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 statements. 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 the Additional Supplementary Information

For the Fiscal Year Ended June 30, 2020

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

	Net Change in Fund Balance			Miscellaneous
	General	Local Grants	Title VI-B	Federal Grants
GAAP Basis	\$2,820,684	\$655,024	(\$17,235)	\$26,423
Net Adjustment for Revenue Accruals	1,455,211	226,234	(24,723)	(360,250)
Beginning Fair Value Adjustment	13,520	0	0	0
Ending Fair Value Adjustment	180,956	0	0	0
Advances In	1,305,000	0	345,000	930,000
Advances Out	(1,977,000)	0	(247,000)	(778,000)
Net Adjustment for Expenditure Accruals	(285,103)	(194,085)	43,779	8,971
Adjustment for Encumbrances	<u>(1,807,309)</u>	<u>(1,198,188)</u>	<u>(109,544)</u>	<u>(165,036)</u>
Budget Basis	<u>\$1,705,959</u>	<u>(\$511,015)</u>	<u>(\$9,723)</u>	<u>(\$337,892)</u>

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020**

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	Non-Cash Expenditures
U.S. DEPARTMENT OF AGRICULTURE						
<i>Passed Through Ohio Department of Education</i>						
Child Nutrition Cluster						
National School Breakfast Program	2020	10.553		\$ 157,416	\$ 157,416	
National School Lunch Program	2020	10.555		320,308	320,308	39,805
Total U.S. Department of Agriculture				<u>477,724</u>	<u>477,724</u>	<u>39,805</u>
U.S. DEPARTMENT OF EDUCATION						
<i>Passed Through Ohio Department of Education</i>						
Title I Cluster						
Title I-Grants to Local Educational Agencies	2019	84.010			31,043	
Title I-Grants to Local Educational Agencies	2020	84.010			194,816	
Subtotal Title I-Grants to Local Educational Agencies					<u>225,859</u>	
Special Education Cluster						
Special Education- Grants to States (IDEA Part B)	2019	84.027			231,445	
Special Education- Grants to States (IDEA Part B)	2020	84.027			2,593,348	
Subtotal Special Education- Grants to States (IDEA , Part B)					<u>2,824,793</u>	
Special Education- PreSchool Grants (IDEA Preschool)	2019	84.173			7,422	
Special Education- PreSchool Grants (IDEA Preschool)	2020	84.173			93,632	
Subtotal Special Education- PreSchool Grants					<u>101,054</u>	
Total Special Education Cluster					<u>2,925,847</u>	
Safe and Drug-Free Schools and Communities	2020	84.184			291,574	
Total Safe and Drug-Free Schools and Communities					<u>291,574</u>	
Statewide Family Engagement Grant	2020	84.310			2,545	
Total Statewide Family Engagement Grant					<u>2,545</u>	
Special Education- State Personnel Development	2019	84.323			8,413	
Special Education- State Personnel Development	2020	84.323			16,735	
Total Special Education- State Personnel Development					<u>25,148</u>	
English Language Acquisition Grant	2019	84.365		22,296	24,294	
English Language Acquisition Grant	2020	84.365		72,270	72,270	
Total English Language Acquisition Grant				<u>94,566</u>	<u>96,564</u>	
Improving Teacher Quality State Grants, Title II-A	2019	84.367				
Improving Teacher Quality State Grants, Title II-A	2020	84.367			108,435	
Total Improving Teacher Quality State Grants, Title II-A					<u>108,435</u>	
Striving Readers Comprehensive Literacy Program	2019	84.371			102,451	
Striving Readers Comprehensive Literacy Program	2020	84.371			563,643	
Total Striving Readers Comprehensive Literacy Program					<u>666,094</u>	
<i>Passed Through Ohio Department of Developmental Disabilities</i>						
Special Education Grants for Infants and Families	2020	84.181	H181A180024		1,395,257	
Total Special Education Grants for Infants and Families					<u>1,395,257</u>	
Total U.S. Department of Educaiton				<u>572,290</u>	<u>6,215,047</u>	<u>39,805</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
<i>Passed Through Ohio Department of Education</i>						
Project Aware	2019	93.243			270,569	
Total Project Aware					<u>270,569</u>	
<i>Passed Through Ohio Department of Job and Family Services</i>						
Refugee and Entrant Assistance Grants	2019	93.576		21,218	24,536	
Refugee and Entrant Assistance Grants	2020	93.576		92,208	96,933	
Total Refugee Impact and Entrant Assistance				<u>113,426</u>	<u>121,469</u>	
Total U.S. Department of Health and Human Services				<u>113,426</u>	<u>392,038</u>	
Total Expenditures of Federal Awards				<u>\$685,716</u>	<u>\$6,607,085</u>	<u>\$39,805</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, 2020**

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, 2020. 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.

NOTE F – FOOD DONATION PROGRAM

The Service Center reports commodities consumed on the Schedule at the entitlement value. The Service Center allocated donated food commodities to the respective program that benefitted from the use of those donated food commodities.

OHIO AUDITOR OF STATE KEITH FABER



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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 auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center of Northeast Ohio, Cuyahoga County, (the Service Center) as of and for the year ended June 30, 2020, 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 2, 2021. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Service Center.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

March 2, 2021

OHIO AUDITOR OF STATE KEITH FABER



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

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

To the Board of Education:

Report on Compliance for the Major Federal Program

We have audited the Educational Service Center of Northeast Ohio's (the Service Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could directly and materially affect the Educational Service Center of Northeast Ohio's major federal program for the year ended June 30, 2020. The *Summary of Auditor's Results* in the accompanying schedule of findings identifies the Service Center's major federal program.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Educational Service Center of Northeast Ohio complied, in all material respects with the compliance requirements referred to above that could directly and materially affect its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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



Keith Faber
Auditor of State
Columbus, Ohio

March 2, 2021

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

**SCHEDULE OF FINDINGS
2 CFR § 200.515
JUNE 30, 2020**

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):	CFDA #84.181 – Special Education – Grants for Infants and Families
(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.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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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 3/25/2021

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This report is a matter of public record and is available online at
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