



OHIO AUDITOR OF STATE  
**KEITH FABER**





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

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MONTGOMERY COUNTY  
JUNE 30, 2020**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

### ***Report on the Financial Statements***

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2020, and the respective changes in financial position thereof for the fiscal year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 18 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the 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 Center's basic financial statements taken as a whole.

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2021, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 4, 2021

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**Montgomery County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
(Unaudited)**

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The discussion and analysis of Montgomery County Educational Service Center's (the Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2020. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the Notes to the Basic Financial Statements and financial statements to enhance their understanding of the Center's performance.

**Financial Highlights**

Key financial highlights for 2020 are as follows:

- Net position of governmental activities decreased \$7,405,459 or 53%.
- General revenues accounted for \$2,127,459 in revenue or 5% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$41,151,828 or 95% of total revenues of \$43,279,287.
- The Center had \$50,684,746 in expenses related to governmental activities; \$41,151,828 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$2,127,459 were also used to provide for these programs.

**Overview of the Financial Statements**

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

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

**Government-wide Financial Statements**

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2020?" The Government-wide Financial Statements answer this question. These statements include all assets and deferred outflows, and liabilities and deferred inflows using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

**Montgomery County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
(Unaudited)**

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

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

**Fund Financial Statements**

The analysis of the Center's major funds is presented in the Fund Financial Statements. Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds.

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

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

**The Center as a Whole**

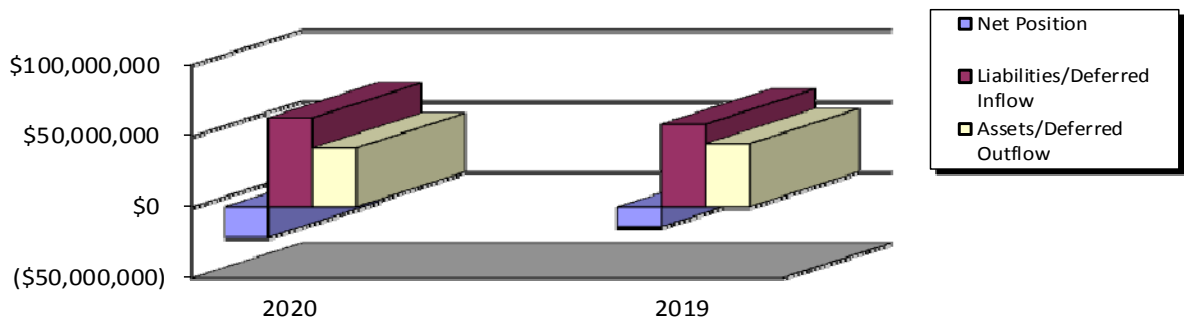
As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2020 compared to 2019:

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**Montgomery County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
(Unaudited)**

Table 1  
Net Position

	Governmental Activities	
	2020	2019
<b>Assets:</b>		
Current and Other Assets	\$11,165,140	\$21,115,484
Net OPEB Asset	2,362,084	2,132,677
Capital Assets	14,883,280	7,729,281
<b>Total Assets</b>	<b>28,410,504</b>	<b>30,977,442</b>
<b>Deferred Outflows of Resources:</b>		
OPEB	1,705,880	949,869
Pension	11,362,407	12,543,430
<b>Total Deferred Outflows of Resources</b>	<b>13,068,287</b>	<b>13,493,299</b>
<b>Liabilities:</b>		
Other Liabilities	5,272,940	4,572,731
Long-Term Liabilities	50,269,784	45,917,329
<b>Total Liabilities</b>	<b>55,542,724</b>	<b>50,490,060</b>
<b>Deferred Inflows of Resources:</b>		
OPEB	4,485,910	4,017,778
Pension	2,743,276	3,850,563
<b>Total Deferred Inflows of Resources</b>	<b>7,229,186</b>	<b>7,868,341</b>
<b>Net Position:</b>		
Net Investment in Capital Assets	14,883,280	7,729,281
Restricted	1,991,898	1,800,529
Unrestricted	(38,168,297)	(23,417,470)
<b>Total Net Position</b>	<b>(\$21,293,119)</b>	<b>(\$13,887,660)</b>



**Montgomery County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2020**  
(Unaudited)

At year-end, capital assets represented 52% of total assets. Investment in capital assets include land, construction in progress, buildings and improvements, furniture and equipment, and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2020, was \$14,883,280. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, \$1,991,898, represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

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

Table 2 shows the changes in net position for fiscal years 2020 and 2019.

Table 2  
Changes in Net Position

	Governmental Activities	
	2020	2019
Revenues:		
Program Revenues		
Charges for Services	\$37,979,707	\$34,898,357
Operating Grants and Contributions	3,172,121	2,796,179
General Revenues:		
Grants and Entitlements	1,695,635	1,708,495
Other	431,824	1,184,872
Total Revenues	<u>43,279,287</u>	<u>40,587,903</u>
Program Expenses:		
Instruction	15,786,261	11,822,050
Support Services:		
Pupil and Instructional Staff	24,588,626	18,626,515
School Administration, General		
Administration, Fiscal, and Business	5,739,950	4,424,314
Operations and Maintenance	2,783,166	2,225,890
Pupil Transportation	53,064	57,995
Central	1,435,966	1,139,358
Operation of Non-Instructional Services	296,806	299,391
Extracurricular Activities	907	3,187
Total Program Expenses	<u>50,684,746</u>	<u>38,598,700</u>
Change in Net Position	(7,405,459)	1,989,203
Net Position - Beginning of Year	<u>(13,887,660)</u>	<u>(15,876,863)</u>
Net Position - End of Year	<u><u>(\$21,293,119)</u></u>	<u><u>(\$13,887,660)</u></u>

**Montgomery County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
(Unaudited)**

The Center's revenues are mainly from two sources. Charges for services and operating grants and contributions comprised 95% of the Center's revenues for governmental activities.

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

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

Revenue Sources	2020	Percent of Total
Grants and Entitlements	\$1,695,635	3.9%
Program Revenues	41,151,828	95.1%
Investment Earnings	196,682	0.5%
Other Revenues	235,142	0.5%
	<u>\$43,279,287</u>	<u>100.0%</u>

Revenues in total increased in 2020 as compared to 2019 due to an increase in charges for services and sales and operating grants and contributions. Total expenses increased in 2020 as compared to 2019, due to changes related to net pension liability and other post employment benefits liability.

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services.

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	\$15,786,261	\$11,822,050	(\$2,985,984)	(\$422,672)
Support Services:				
Pupil and Instructional Staff	24,588,626	18,626,515	(5,010,910)	(298,768)
School Administration, General				
Administration, Fiscal, and Business	5,739,950	4,424,314	(1,050,919)	(102,536)
Operations and Maintenance	2,783,166	2,225,890	(15,618)	194,345
Pupil Transportation	53,064	57,995	(53,064)	(57,995)
Central	1,435,966	1,139,358	(238,020)	(74,104)
Operation of Non-Instructional Services	296,806	299,391	(178,279)	(142,233)
Extracurricular Activities	907	3,187	(124)	(201)
Total Expenses	<u>\$50,684,746</u>	<u>\$38,598,700</u>	<u>(\$9,532,918)</u>	<u>(\$904,164)</u>

**The Center's Funds**

The Center has two major governmental funds: the General Fund and the Regional Transportation Fund. Assets of these funds comprise \$10,395,407 (90%) of the total \$11,585,359 governmental funds' assets.

**Montgomery County Educational Service Center  
Management’s Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
(Unaudited)**

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**General Fund:** Fund balance at June 30, 2020 was \$4,144,727 including \$1,452,221 of unassigned balance. The primary reason for the decrease in fund balance was due to expenditures exceeding revenues during the year.

**Regional Transportation Fund:** Fund balance at June 30, 2020 was \$1,251,873. Fund balance remained relatively stable from 2019 to 2020.

**General Fund Budgeting Highlights**

Under Ohio law, educational service centers are no longer required to prepare a budget. Therefore, at June 30, 2020 a budgetary statement is not presented within the basic financial statements because the Board of Education did not approve estimated revenues or adopt appropriations.

**Capital Assets and Debt Administration**

**Capital Assets**

At the fiscal year end 2020, the Center had \$14,883,280 invested in land, construction in progress, buildings and improvements, furniture and equipment, and vehicles. Table 4 shows fiscal year 2020 balances as compared to fiscal year 2019:

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

	Governmental Activities	
	2020	2019
Land	\$182,098	\$182,098
Construction in Progress	7,719,305	361,510
Buildings and Improvements	6,440,163	6,619,302
Furniture and Equipment	309,889	276,443
Vehicles	231,825	289,928
Total Net Capital Assets	<u>\$14,883,280</u>	<u>\$7,729,281</u>

Capital assets increased in fiscal year 2020 due to current year depreciation expense not exceeding current year additions. See Note 6 to the basic financial statements for further details on the Center’s capital assets.

**Debt**

At June 30, 2020, the Center had no debt outstanding. See Note 11 to the basic financial statements for further details on the Center’s long-term obligations.

**For the Future**

Local Centers are reorganizing and putting buildings to use that were previously rented by the Center. As a result, the Center purchased five buildings in prior fiscal years and is leasing one after renovations are completed to accommodate special education programs. The Center has seen positive outcomes from

**Montgomery County Educational Service Center  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2020  
(Unaudited)**

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the addition of these buildings and expects this trend to continue. These positive outcomes include additional space for programs and more secure locations for programs which the local Centers find favorable.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer, at Montgomery County Educational Service Center, 200 South Keowee, Dayton, Ohio 45402.

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Montgomery County Educational Service Center  
Statement of Net Position  
June 30, 2020

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$7,133,236
Receivables (Net):	
Accounts	1,709,807
Interest	8,696
Intergovernmental	998,769
Notes	1,225,000
Prepaid Items	89,632
Net OPEB Asset	2,362,084
Nondepreciable Capital Assets	7,901,403
Depreciable Capital Assets, Net	<u>6,981,877</u>
 Total Assets	 <u>28,410,504</u>
Deferred Outflows of Resources:	
Pension	11,362,407
OPEB	<u>1,705,880</u>
 Total Deferred Outflows of Resources	 <u>13,068,287</u>
Liabilities:	
Accounts Payable	223,586
Accrued Wages and Benefits	5,049,354
Long-Term Liabilities:	
Due Within One Year	264,964
Due In More Than One Year	
Net Pension Liability	44,333,070
Net OPEB Liability	5,115,180
Other Amounts	<u>556,570</u>
 Total Liabilities	 <u>55,542,724</u>
Deferred Inflows of Resources:	
Pension	2,743,276
OPEB	<u>4,485,910</u>
 Total Deferred Inflows of Resources	 <u>7,229,186</u>
Net Position:	
Investment in Capital Assets	14,883,280
Restricted for:	
Federal Grants	541,788
Regional Transportation	1,251,873
State Grants	142,140
Other Purposes	56,097
Unrestricted	<u>(38,168,297)</u>
 Total Net Position	 <u><u>(\$21,293,119)</u></u>

See accompanying notes to the basic financial statements.



Montgomery County Educational Service Center  
Statement of Activities  
For the Fiscal Year Ended June 30, 2020

	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services and Sales	Operating Grants and Contributions	and Change in Net Position Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Regular	\$464	\$350	\$0	(\$114)
Special	15,780,896	12,724,756	71,310	(2,984,830)
Other	4,901	3,861	0	(1,040)
<b>Support Services:</b>				
Pupil	14,573,585	10,878,642	15,262	(3,679,681)
Instructional Staff	10,015,041	6,184,652	2,499,160	(1,331,229)
General Administration	208,472	183,504	0	(24,968)
School Administration	4,803,105	3,927,911	0	(875,194)
Fiscal	721,486	571,512	0	(149,974)
Business	6,887	6,104	0	(783)
Operations and Maintenance	2,783,166	2,299,686	467,862	(15,618)
Pupil Transportation	53,064	0	0	(53,064)
Central	1,435,966	1,197,946	0	(238,020)
Operation of Non-Instructional Services	296,806	0	118,527	(178,279)
Extracurricular Activities	907	783	0	(124)
<b>Total Governmental Activities</b>	<b>\$50,684,746</b>	<b>\$37,979,707</b>	<b>\$3,172,121</b>	<b>(9,532,918)</b>

<b>General Revenues:</b>	
Grants and Entitlements, Not Restricted	1,695,635
Revenue in Lieu of Taxes	150,298
Unrestricted Contributions	12,987
Investment Earnings	196,682
Other Revenues	71,857
<b>Total General Revenues</b>	<b>2,127,459</b>
Change in Net Position	(7,405,459)
Net Position - Beginning of Year	(13,887,660)
Net Position - End of Year	(\$21,293,119)

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center  
Balance Sheet  
Governmental Funds  
June 30, 2020

	General	Regional Transportation	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in Pooled Cash and Investments	\$5,756,533	\$1,251,873	\$124,830	\$7,133,236
<b>Receivables (Net):</b>				
Accounts	1,709,807	0	0	1,709,807
Interest	8,696	0	0	8,696
Intergovernmental	0	0	998,769	998,769
Notes	1,225,000	0	0	1,225,000
Interfund	360,345	0	59,874	420,219
Prepaid Items	83,153	0	6,479	89,632
<b>Total Assets</b>	<b>9,143,534</b>	<b>1,251,873</b>	<b>1,189,952</b>	<b>11,585,359</b>
<b>Liabilities:</b>				
Accounts Payable	179,876	0	43,710	223,586
Accrued Wages and Benefits	4,685,322	0	364,032	5,049,354
Compensated Absences	16,116	0	0	16,116
Interfund Payable	0	0	420,219	420,219
<b>Total Liabilities</b>	<b>4,881,314</b>	<b>0</b>	<b>827,961</b>	<b>5,709,275</b>
<b>Deferred Inflows of Resources:</b>				
Grants	0	0	808,406	808,406
Accounts	116,445	0	0	116,445
Investment Earnings	1,048	0	0	1,048
<b>Total Deferred Inflows of Resources</b>	<b>117,493</b>	<b>0</b>	<b>808,406</b>	<b>925,899</b>
<b>Fund Balances:</b>				
Nonspendable	1,308,153	0	6,479	1,314,632
Restricted	0	1,251,873	115,971	1,367,844
Assigned	1,384,353	0	0	1,384,353
Unassigned	1,452,221	0	(568,865)	883,356
<b>Total Fund Balances</b>	<b>4,144,727</b>	<b>1,251,873</b>	<b>(446,415)</b>	<b>4,950,185</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$9,143,534</b>	<b>\$1,251,873</b>	<b>\$1,189,952</b>	<b>\$11,585,359</b>

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center  
 Reconciliation of Total Governmental Fund Balance to  
 Net Position of Governmental Activities  
 June 30, 2020

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Total Governmental Fund Balance \$4,950,185

Amounts reported for governmental activities in the  
 Statement of Net Position are different because:

Capital assets used in governmental activities are not financial  
 resources and, therefore, are not reported in the funds.

Capital assets used in the operation of Governmental Funds 14,883,280

Other long-term assets are not available to pay for current-  
 period expenditures and, therefore, are deferred in the funds.

Interest	1,048	
Intergovernmental	808,406	
Other	<u>116,445</u>	
		925,899

Some liabilities reported in the Statement of Net Position do not  
 require the use of current financial resources and, therefore,  
 are not reported as liabilities in governmental funds.

Compensated Absences (805,418)

Deferred outflows and inflows of resources related to pensions and OPEB  
 are applicable to future periods and, therefore, are not  
 reported in the funds.

Deferred outflows of resources related to pensions	11,362,407	
Deferred inflows of resources related to pensions	(2,743,276)	
Deferred outflows of resources related to OPEB	1,705,880	
Deferred inflows of resources related to OPEB	<u>(4,485,910)</u>	
		5,839,101

Long-term liabilities and net OPEB assets are not available to pay for  
 current period expenditures and are not due and payable in the  
 current period and, therefore, are not reported in the funds.

Net OPEB Asset	2,362,084	
Net Pension Liability	(44,333,070)	
Net OPEB Liability	<u>(5,115,180)</u>	
		<u>(47,086,166)</u>

Net Position of Governmental Activities (\$21,293,119)

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center  
Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Governmental Funds  
For the Fiscal Year Ended June 30, 2020

	General	Regional Transportation	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Tuition and Fees	\$28,516,749	\$0	\$0	\$28,516,749
Investment Earnings	199,646	0	0	199,646
Intergovernmental	1,766,945	0	2,939,237	4,706,182
Charges for Services	0	0	1,080,583	1,080,583
Contract Services	8,003,436	0	0	8,003,436
Other Revenues	503,183	0	0	503,183
<b>Total Revenues</b>	<b>38,989,959</b>	<b>0</b>	<b>4,019,820</b>	<b>43,009,779</b>
<b>Expenditures:</b>				
<b>Current:</b>				
<b>Instruction:</b>				
Regular	422	0	0	422
Special	14,517,152	0	0	14,517,152
Other	4,356	0	0	4,356
<b>Support Services:</b>				
Pupil	12,561,073	0	567,249	13,128,322
Instructional Staff	6,302,069	0	3,126,118	9,428,187
General Administration	206,568	0	0	206,568
School Administration	4,323,146	0	0	4,323,146
Fiscal	560,311	0	101,211	661,522
Business	6,887	0	0	6,887
Operations and Maintenance	2,264,961	0	418,340	2,683,301
Pupil Transportation	0	8,360	0	8,360
Central	1,324,678	0	0	1,324,678
Operation of Non-Instructional Services	0	0	284,819	284,819
Extracurricular Activities	883	0	0	883
Capital Outlay	7,357,795	0	0	7,357,795
<b>Total Expenditures</b>	<b>49,430,301</b>	<b>8,360</b>	<b>4,497,737</b>	<b>53,936,398</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(10,440,342)</b>	<b>(8,360)</b>	<b>(477,917)</b>	<b>(10,926,619)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers In	0	0	136,733	136,733
Transfers (Out)	(136,733)	0	0	(136,733)
<b>Total Other Financing Sources (Uses)</b>	<b>(136,733)</b>	<b>0</b>	<b>136,733</b>	<b>0</b>
<b>Net Change in Fund Balance</b>	<b>(10,577,075)</b>	<b>(8,360)</b>	<b>(341,184)</b>	<b>(10,926,619)</b>
<b>Fund Balance - Beginning of Year</b>	<b>14,721,802</b>	<b>1,260,233</b>	<b>(105,231)</b>	<b>15,876,804</b>
<b>Fund Balance - End of Year</b>	<b>\$4,144,727</b>	<b>\$1,251,873</b>	<b>(\$446,415)</b>	<b>\$4,950,185</b>

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center  
 Reconciliation of the Statement of Revenues, Expenditures, and Changes  
 in Fund Balance of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2020

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Net Change in Fund Balance - Total Governmental Funds (\$10,926,619)

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

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

Capital assets used in governmental activities	7,429,252	
Depreciation Expense	<u>(275,253)</u>	
		7,153,999

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

Pension Contributions	3,736,646	
Pension Expense	(8,192,214)	
OPEB Contributions	22,624	
OPEB Expense	<u>501,517</u>	
		(3,931,427)

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

Interest	(2,964)	
Intergovernmental	161,574	
Other	<u>110,899</u>	
		269,509

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

Compensated Absences		<u>29,079</u>
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Change in Net Position of Governmental Activities (\$7,405,459)

See accompanying notes to the basic financial statements.

Montgomery County Educational Service Center  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2020

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	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	<u>\$132,490</u>
Total Assets	<u>132,490</u>
Liabilities:	
Other Liabilities	<u>132,490</u>
Total Liabilities	<u>\$132,490</u>

See accompanying notes to the basic financial statements.

**Montgomery County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020**

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**Note 1 – Description of the Center and Reporting Entity**

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

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

**Reporting Entity**

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

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

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

**Jointly Governed Organizations:**

- Metropolitan Educational Technology Association
- Southwestern Ohio Educational Purchasing Council
- Shared Resource Center Regional Council of Governments

**Insurance Purchasing Pools:**

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

**Public Entity Shared Risk Pool**

- Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 2 – Summary of Significant Accounting Policies**

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The financial statements of the Montgomery County Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below.

**Measurement Focus**

**Government-wide Financial Statements**

The Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities and fund financial statements which provide a more detailed level of financial information.

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

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

**Fund Financial Statements**

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

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



**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Fund Accounting**

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

**Governmental Funds**

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

General Fund - The General Fund is the operating fund of the Center and is used to account for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

Regional Transportation Fund - The Regional Transportation fund provides services to challenged students who are placed in educational programs outside of their resident school district.

**Fiduciary Funds**

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

**Basis of Accounting**

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

**Revenues - Exchange and Non-exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means that the amount of the transaction can be determined and "available" means that the resources will be collected within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within 60 days of fiscal year-end.

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: excess costs, tuition and student fees, grants, and accrued interest.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources include grants, pension, OPEB, accounts, and investment earnings. The amounts related to grants, investment earnings and accounts are only recorded on the fund level balance sheet and have been recorded as revenue on the statement of activities. The amount related to pension and OPEB is only recorded on the government-wide statement of net position. For more pension and OPEB related information, see Notes 8 and 9.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

**Equity in Pooled Cash and Investments**

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

During fiscal year 2020, the Center's investments were limited to negotiable certificates of deposit, which are valued using pricing sources, as provided by the investment managers.

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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Following Ohio Statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2020 amounted to \$199,646.

**Interfund Activity**

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

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

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

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2020 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and expenditure/expense is reported in the year in which services are consumed.

**Capital Assets**

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

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

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	50 years
Furniture and Equipment	5-10 years
Vehicles	5-10 years

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Accrued Liabilities and Long-term Obligations**

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

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

**Pensions/Other Postemployment Benefits (OPEB)**

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

**Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all eligible employees with more than one year of service.

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

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

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$1,991,898 in restricted net position, none were restricted by enabling legislation.

**Estimates**

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

**Budgetary Process**

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

**Fund Balance**

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

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

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

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

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

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

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

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Restricted Resources**

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

**Note 3 – Equity in Pooled Cash and Investments**

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met.
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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

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

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

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

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

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2020, \$6,862,474 of the Center's bank balance of \$7,362,474 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Investments**

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

<u>Investment Type</u>	<u>Value</u>	<u>Hierarchy</u>	<u>Maturity (Years)</u>
Negotiable CDs	\$1,808,085	Level 2	1.25

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the Center’s recurring fair value measurements as of June 30, 2020.

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

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. Negotiable CDs are not rated.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. The Center has invested 100% in Negotiable CDs.

Custodial Credit Risk - Is the risk that the Center takes in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center’s securities are either insured and registered in the name of the Center or at least registered in the name of the Center. The Center’s investment policy does not address this risk for investments.

**Note 4 – State and Local School District Funding**

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



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

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

**Note 5 – Receivables**

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Receivables at June 30, 2020, consisted of interest, accounts, intergovernmental, notes and interfund. All receivables are considered collectible in full and will be received within one year.

During fiscal year 2017, the Center initiated a loan in the form of a promissory note to the Shared Resource Center Regional Council of Governments (the Council) for its initial operating costs. The Council promised to pay the Center the principal sum with interest accruing at a rate of three percent (3%) annually. The Council must pay the entire amount due not later than February 17, 2020, unless an agreement is formed to extend the due date. During fiscal year 2018, a formal agreement was formed to extend the due date to February 28, 2021. Time for payment of the notes may be extended from time to time and the notes may be renewed from time to time, all without notice and without affecting, in any manner, the liability for payment of the notes. The notes may be prepaid in full or in part at any time, without penalty. At June 30, 2020, the amount of this note is \$1,225,000, which the Center has reported as notes receivable.

**Note 6 – Capital Assets**

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

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	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental Activities</b>				
<b><i>Capital Assets, not being depreciated:</i></b>				
Land	\$182,098	\$0	\$0	\$182,098
Construction in Progress	361,510	7,357,795	0	7,719,305
Total Capital Assets, not being depreciated	<u>543,608</u>	<u>7,357,795</u>	<u>0</u>	<u>7,901,403</u>
<b><i>Capital Assets, being depreciated:</i></b>				
Buildings and Improvements	8,787,187	0	0	8,787,187
Furniture and Equipment	3,794,677	71,457	32,217	3,833,917
Vehicles	974,827	0	0	974,827
Total Capital Assets, being depreciated	<u>13,556,691</u>	<u>71,457</u>	<u>32,217</u>	<u>13,595,931</u>
Totals at Historical Cost	<u>14,100,299</u>	<u>7,429,252</u>	<u>32,217</u>	<u>21,497,334</u>
Less Accumulated Depreciation:				
Buildings and Improvements	2,167,885	179,139	0	2,347,024
Furniture and Equipment	3,518,234	38,011	32,217	3,524,028
Vehicles	684,899	58,103	0	743,002
Total Accumulated Depreciation	<u>6,371,018</u>	<u>275,253</u>	<u>32,217</u>	<u>6,614,054</u>
Governmental Activities Capital Assets, Net	<u>\$7,729,281</u>	<u>\$7,153,999</u>	<u>\$0</u>	<u>\$14,883,280</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$19,854
Support Services:	
Pupil	32,729
Instructional Staff	62,052
School Administration	6,821
Fiscal	7,093
Operations and Maintenance	92,125
Pupil Transportation	40,011
Central	12,705
Operation of Non-Instructional Services	<u>1,863</u>
Total Depreciation Expense	<u>\$275,253</u>

**Note 7 – Risk Management**

**Property and Liability**

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the Center joined together with other school districts in Ohio to participate in the Ohio School Plan (OSP), an insurance purchasing pool (See Note 13). Each individual participant enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects.

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The Center pays this annual premium to the OSP. The Center contracts for property, fleet, violence, pollution, and liability insurance with OSP.

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

**Workers' Compensation**

For fiscal year 2020, the Center participated in the Southwestern Ohio Educational Purchasing Council Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Hunter Consulting Company provides administrative, cost control and actuarial services to the GRP.

**Medical Benefits**

For fiscal year 2020, the Center participated in the Southwestern Ohio Educational Purchasing Cooperative Benefit Plan Trust (Trust), a public entity shared risk pool (Note 13). The Center pays monthly premiums to the Trust for employee medical insurance benefits. The Trust is responsible for the management and operations of the program. Upon withdrawal from the Trust, a participant is responsible for the payment of all Trust liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

**Note 8 - Defined Benefit Pension Plans**

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

**Net Pension Liability/Net OPEB Liability (Asset)**

Pensions and OPEB are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions/OPEB are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions and OPEB are a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

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GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The remainder of this note includes the required pension disclosures. See Note 9 for the required OPEB disclosures.

**Plan Description - School Employees Retirement System (SERS)**

**Plan Description**

Non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at [www.ohsers.org](http://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.

**Montgomery County Educational Service Center**  
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**Funding Policy**

Plan members are required to contribute 10 percent of their annual covered salary and the employer 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 contractually required contribution to SERS was \$1,123,639 for fiscal year 2020. Of this amount \$0 is reported as accrued wages and benefits.

**Plan Description - State Teachers Retirement System (STRS)**

**Plan Description**

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](http://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. Effective Aug. 1, 2017 through July 1, 2019, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective Aug. 1, 2019–July 1, 2021, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 28 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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

**Funding Policy**

Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The fiscal year 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 contractually required contribution to STRS was \$2,613,007 for fiscal year 2020. Of this amount \$406,987 is reported as accrued wages and benefits.

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

The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on the Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$12,794,111	\$31,538,959	\$44,333,070
Proportion of the Net Pension Liability:			
Current Measurement Date	0.21383480%	0.14261730%	
Prior Measurement Date	<u>0.18803410%</u>	<u>0.13272013%</u>	
Change in Proportionate Share	0.02580070%	0.00989717%	
Pension Expense	\$2,507,469	\$5,684,745	\$8,192,214

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

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$324,430	\$256,780	\$581,210
Changes of assumptions	0	3,704,860	3,704,860
Changes in proportion and differences between the Center contributions and proportionate share of contributions	976,759	2,362,932	3,339,691
Contributions subsequent to the measurement date	1,123,639	2,613,007	3,736,646
Total Deferred Outflows of Resources	<u>\$2,424,828</u>	<u>\$8,937,579</u>	<u>\$11,362,407</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$0	\$136,527	\$136,527
Net difference between projected and actual earnings on pension plan investments	164,228	1,541,453	1,705,681
Changes in proportion and differences between the Center contributions and proportionate share of contributions	22,737	878,331	901,068
Total Deferred Inflows of Resources	<u>\$186,965</u>	<u>\$2,556,311</u>	<u>\$2,743,276</u>

\$3,736,646 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 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:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2021	\$1,039,036	\$2,380,556	\$3,419,592
2022	(7,020)	921,106	914,086
2023	(10,928)	(97,631)	(108,559)
2024	93,136	564,230	657,366
Total	<u>\$1,114,224</u>	<u>\$3,768,261</u>	<u>\$4,882,485</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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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%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

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

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



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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$17,929,124	\$12,794,111	\$8,487,760

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

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

The following table presents the proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$46,090,675	\$31,538,959	\$19,220,186

**Note 9 - Defined Benefit OPEB Plans**

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

**Plan Description - School Employees Retirement System (SERS)**

**Health Care Plan Description**

The Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents.

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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](http://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 Center's surcharge obligation was \$22,624.

The surcharge, added to any allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The contractually required contribution to SERS was \$22,624 for fiscal year 2020. Of this amount \$22,624 is reported as accrued wages and benefits.

**Plan Description - State Teachers Retirement System (STRS)**

**Plan Description**

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

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health care may be deducted from employer contributions, currently 14 percent of covered payroll. For fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

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

The net OPEB liability (asset) was measured as of June 30, 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 Center's proportion of the net OPEB liability (asset) was based on the Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	\$5,115,180	\$0	\$5,115,180
Proportionate Share of the Net OPEB (Asset)	0	(2,362,084)	(2,362,084)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.20340390%	0.14261730%	
Prior Measurement Date	<u>0.18462640%</u>	<u>0.13272013%</u>	
Change in Proportionate Share	0.01877750%	0.00989717%	
OPEB Expense (Income)	\$200,261	(\$701,778)	(\$501,517)

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

**Deferred Outflows of Resources**

Differences between expected and actual experience	\$75,087	\$214,141	\$289,228
Changes of assumptions	373,606	49,650	423,256
Net difference between projected and actual earnings on OPEB plan investments	12,278	0	12,278
Changes in proportion and difference between Center contributions and proportionate share of contributions	679,165	279,329	958,494
Contributions subsequent to the measurement date	<u>22,624</u>	<u>0</u>	<u>22,624</u>
Total Deferred Outflows of Resources	<u>\$1,162,760</u>	<u>\$543,120</u>	<u>\$1,705,880</u>

**Deferred Inflows of Resources**

Differences between expected and actual experience	\$1,123,770	\$120,174	\$1,243,944
Changes of assumptions	286,640	2,589,752	2,876,392
Net difference between projected and actual earnings on OPEB plan investments	0	148,355	148,355
Changes in proportion and differences between Center contributions and proportionate share of contributions	<u>13,815</u>	<u>203,404</u>	<u>217,219</u>
Total Deferred Inflows of Resources	<u>\$1,424,225</u>	<u>\$3,061,685</u>	<u>\$4,485,910</u>

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\$22,624 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 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:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	(\$174,524)	(\$542,452)	(\$716,976)
2022	(18,066)	(542,452)	(560,518)
2023	(14,462)	(482,993)	(497,455)
2024	(15,049)	(462,135)	(477,184)
2025	(37,763)	(504,827)	(542,590)
Thereafter	(24,225)	16,294	(7,931)
Total	<u>(\$284,089)</u>	<u>(\$2,518,565)</u>	<u>(\$2,802,654)</u>

**Actuarial Assumptions - SERS**

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

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

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

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

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

Mortality rates among active members were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years. The most recent experience study was completed for the five year period ended June 30, 2015.

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

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

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

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**Discount Rate**

The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019, was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the 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%)
Proportionate share of the net OPEB liability	\$6,208,859	\$5,115,180	\$4,245,578
	1% Decrease (6.00% decreasing to 3.75%)	Current Trend Rate (7.00% decreasing to 4.75%)	1% Increase (8.00% decreasing to 5.75%)
Proportionate share of the net OPEB liability	\$4,098,296	\$5,115,180	\$6,464,340

**Assumption and Benefit Changes since the Prior Measurement Date**

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

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

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**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:

Inflation	2.50%
Projected salary increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3.00%
Discount Rate of Return	7.45%
Health Care Cost Trends:	
Medical	
Pre-Medicare	5.87% initial, 4% ultimate
Medicare	4.93% initial, 4% ultimate
Prescription Drug	
Pre-Medicare	7.73% initial, 4% ultimate
Medicare	9.62% initial, 4% ultimate

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

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

Actuarial assumptions used in the June 30, 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:

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long-Term Expected Rate of Return**</u>
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	<u>1.00%</u>	2.25%
Total	<u>100.00%</u>	

\* 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% 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.



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**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019 and June 30, 2018. The projection of cash flows used to determine the discount rate assumed 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 and June 30, 2018.

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

The following table represents the net OPEB asset as of June 30, 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%)
Proportionate share of the net OPEB (asset)	(\$2,015,569)	(\$2,362,084)	(\$2,653,423)

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$2,678,496)	(\$2,362,084)	(\$1,974,558)

**Assumption and Benefit Changes 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.

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

**Note 10 – Other Employee Benefits**

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**Compensated Absences**

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

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

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

**Insurance Benefits**

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

**Deferred Compensation Plan**

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

**Note 11 – Long-Term Obligations**

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

	<u>Beginning Outstanding</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Outstanding</u>	<u>Due In One Year</u>
<b>Governmental Activities:</b>					
Compensated Absences	\$844,056	\$248,544	\$271,066	\$821,534	\$264,964
Net Pension Liability:					
STRS	29,182,177	2,356,782	0	31,538,959	0
SERS	10,769,061	2,025,050	0	12,794,111	0
Total Net Pension Liability	39,951,238	4,381,832	0	44,333,070	0
Net OPEB Liability:					
STRS	0	0	0	0 (a)	0
SERS	5,122,035	0	6,855	5,115,180	0
Total Net OPEB Liability	5,122,035	0	6,855	5,115,180	0
Total Long-Term Obligations	<u>\$45,917,329</u>	<u>\$4,630,376</u>	<u>\$277,921</u>	<u>\$50,269,784</u>	<u>\$264,964</u>

(a) OPEB for STRS has a Net OPEB asset in the amount of \$2,362,084 as of June 30, 2020.

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

**Note 12 – Interfund Balances/Transfers**

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Interfund transactions at June 30, 2020, consisted of the following individual fund receivables and payables and transfers in and out:

	Interfund		Transfers	
	Receivable	Payable	In	Out
General Fund	\$360,345	\$0	\$0	\$136,733
Other Governmental Funds	59,874	420,219	136,733	0
Total All Funds	<u>\$420,219</u>	<u>\$420,219</u>	<u>\$136,733</u>	<u>\$136,733</u>

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

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

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

**Jointly Governed Organizations**

**Metropolitan Educational Technology Association (META)** - The Center was a participant in the Metropolitan Dayton Educational Cooperative Association (MDECA). During 2016, MDECA merged with the Metropolitan Educational Technology Association (META), which is a computer consortium. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client’s needs. The governing board of META consists of a president, vice president and six board members who represent the members of META. The Board works with META’s Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization’s mission, vision, and values. The Board exercises total control over the operations of the Association including budgeting, appropriating, contracting and designating management. Each District and Centers’ degree of control is limited to its representation on the Board. The Center paid META \$27,418 for services provided during the fiscal year. Financial information can be obtained from the Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

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

Each member district has one voting representative. Title to any and all equipment, furniture, and supplies purchased by SOEPC is held in trust for the member districts. Any district withdrawing from the SOEPC forfeits its claim to any and all SOEPC assets. One year prior notice is necessary for withdrawal

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from the group. During this time, the withdrawing member is liable for all member obligations. Payments to SOEPC are made from the General Fund. During fiscal year 2020, the Center paid \$1,512 to SOEPC. To obtain financial information, write to the Southwestern Ohio Educational Purchasing Council, the Director, at 303 Corporate Center Drive, Suite 208, Vandalia, Ohio 45377.

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

**Insurance Purchasing Pools**

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

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

**Public Entity Shared Risk Pool**

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

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**Note 14 – Accountability**

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The following funds had deficit fund balances as of June 30, 2020:

Other Governmental Funds:

Title VI-B	\$17,807
Food Service	40,153
Miscellaneous State Grants	60,299
Title I	2,053
ECO Training	2,175
Miscellaneous Federal Grants	18,750
Title III	15,063
Mentoring Services	406,086

The deficit fund balances resulted from adjustments for accrued liabilities. Management expects the deficits in these funds to be corrected in fiscal year 2021. The General Fund is liable for any deficit in these funds and provides operating transfers when cash is required, not when accruals occur.

**Note 15 – Fund Balances**

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

Fund Balances	General	Regional Transportation	Other Governmental Funds	Total
<b>Nonspendable:</b>				
Prepays	\$83,153	\$0	\$6,479	\$89,632
Notes Receivable	1,225,000	0	0	1,225,000
<b>Total Nonspendable</b>	<b>1,308,153</b>	<b>0</b>	<b>6,479</b>	<b>1,314,632</b>
<b>Restricted for:</b>				
Data Communication	0	0	5,400	5,400
Scholarship	0	0	6,125	6,125
Rotary	0	0	44,572	44,572
Regional Transportation	0	1,251,873	0	1,251,873
Ohio Resident Educator Grant	0	0	59,874	59,874
<b>Total Restricted</b>	<b>0</b>	<b>1,251,873</b>	<b>115,971</b>	<b>1,367,844</b>
<b>Assigned to:</b>				
Encumbrances	1,384,353	0	0	1,384,353
<b>Total Assigned</b>	<b>1,384,353</b>	<b>0</b>	<b>0</b>	<b>1,384,353</b>
<b>Unassigned (Deficit)</b>	<b>1,452,221</b>	<b>0</b>	<b>(568,865)</b>	<b>883,356</b>
<b>Total Fund Balance</b>	<b>\$4,144,727</b>	<b>\$1,251,873</b>	<b>(\$446,415)</b>	<b>\$4,950,185</b>

**Montgomery County Educational Service Center**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Year Ended June 30, 2020**

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**Note 16 – Contingencies**

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**Grants**

The Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2020.

**Litigation**

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

**Note 17 – Implementation of New Accounting Principles**

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For fiscal year 2020, the Center has postponed implementation of *Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities, GASB No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, and GASB No. 90, Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The Center did not implement these statements due to the GASB postponing the implementation by 12 months because of the COVID-19 pandemic.

**Note 18 – COVID-19**

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The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center. The Center's investment portfolio and the investments at the pension and other employee benefit plans in which the 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 Center's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**Note 19 – Subsequent Event**

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During April 2021, the Center accepted \$4,000,000 in funding from RemotEDx, for remote learning. The Center will be reimbursed as money is expended for allowable project costs. This will be accounted for within the Elementary and Secondary School Emergency Relief (ESSER) fund.

# **REQUIRED SUPPLEMENTARY INFORMATION**

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered-Employee Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.21383480%	\$12,794,111	\$7,335,741	174.41%	70.85%
2019	0.18803410%	10,769,061	6,314,415	170.55%	71.36%
2018	0.17604950%	10,518,569	6,139,621	171.32%	69.50%
2017	0.17788510%	13,019,548	5,570,857	233.71%	62.98%
2016	0.20395370%	11,637,797	6,498,596	179.08%	69.16%
2015	0.19182200%	9,708,002	5,630,281	172.42%	71.70%
2014	0.19182200%	11,410,460	5,073,194	224.92%	65.52%

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.



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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2020	\$1,123,639	(\$1,123,639)	\$0	\$8,025,993	14.00%
2019	990,325	(990,325)	0	7,335,741	13.50%
2018	852,446	(852,446)	0	6,314,415	13.50%
2017	859,547	(859,547)	0	6,139,621	14.00%
2016	779,920	(779,920)	0	5,570,857	14.00%
2015	856,515	(856,515)	0	6,498,596	13.18%
2014	780,357	(780,357)	0	5,630,281	13.86%
2013	702,130	(702,130)	0	5,073,194	13.84%
2012	736,573	(736,573)	0	5,476,379	13.45%
2011	422,384	(422,384)	0	3,360,255	12.57%

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered-Employee Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	0.14261730%	\$31,538,959	\$17,184,293	183.53%	77.40%
2019	0.13272013%	29,182,177	15,144,550	192.69%	77.30%
2018	0.13956963%	33,155,064	15,479,750	214.18%	75.30%
2017	0.13229514%	44,283,171	14,060,350	314.95%	66.80%
2016	0.13429051%	37,113,970	14,173,557	261.85%	72.10%
2015	0.12080229%	29,383,298	13,292,092	221.06%	74.70%
2014	0.12080229%	34,906,932	13,820,008	252.58%	69.30%

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2014 is not available.

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2020	\$2,613,007	(\$2,613,007)	\$0	\$18,664,336	14.00%
2019	2,405,801	(2,405,801)	0	17,184,293	14.00%
2018	2,120,237	(2,120,237)	0	15,144,550	14.00%
2017	2,167,165	(2,167,165)	0	15,479,750	14.00%
2016	1,968,449	(1,968,449)	0	14,060,350	14.00%
2015	1,984,298	(1,984,298)	0	14,173,557	14.00%
2014	1,727,972	(1,727,972)	0	13,292,092	13.00%
2013	1,796,601	(1,796,601)	0	13,820,008	13.00%
2012	1,881,000	(1,881,000)	0	14,469,231	13.00%
2011	1,726,279	(1,726,279)	0	13,279,069	13.00%

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB Liability	Center's Proportionate Share of the Net OPEB Liability	Center's Covered-Employee Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2020	0.20340390%	\$5,115,180	\$7,335,741	69.73%	15.57%
2019	0.18462640%	5,122,035	6,314,415	81.12%	13.57%
2018	0.17448220%	4,682,644	6,139,621	76.27%	12.46%
2017	0.17688015%	5,041,738	5,570,857	90.50%	11.49%

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution (2)	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2020	\$22,624	(\$22,624)	\$0	\$8,025,993	0.28%
2019	87,089	(87,089)	0	7,335,741	1.19%
2018	104,072	(104,072)	0	6,314,415	1.65%
2017	75,821	(75,821)	0	6,139,621	1.23%
2016	74,968	(74,968)	0	5,570,857	1.35%

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

(2) Includes surcharge.

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB (Asset)/Liability	Center's Proportionate Share of the Net OPEB (Asset)/Liability	Center's Covered-Employee Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB (Asset)/Liability
2020	0.14261730%	(\$2,362,084)	\$17,184,293	(13.75%)	174.74%
2019	0.13272013%	(2,132,677)	15,144,550	(14.08%)	176.00%
2018	0.13956963%	5,445,492	15,479,750	35.18%	47.10%
2017	0.13229514%	7,075,179	14,060,350	50.32%	37.30%

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contribution	Center's Contribution Deficiency (Excess)	Center's Covered-Employee Payroll	Center's Contributions as a Percentage of Covered-Employee Payroll
2020	\$0	\$0	\$0	\$18,664,336	0.00%
2019	0	0	0	17,184,293	0.00%
2018	0	0	0	15,144,550	0.00%
2017	0	0	0	15,479,750	0.00%
2016	0	0	0	14,060,350	0.00%

(1) The schedule is intended to show information for the past 10 years and the additional years' information will be displayed as it becomes available. Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.

**Montgomery County Educational Service Center  
Notes to the Required Supplementary Information  
For The Fiscal Year Ended June 30, 2020**

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**Note 1 - Net Pension Liability**

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**School Employees Retirement System (SERS)**

**Changes in Benefit Terms:**

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

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

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

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

**Changes in Assumptions:**

2018-2020: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.

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

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

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

**State Teachers Retirement System (STRS)**

**Changes in Benefit Terms:**

2019-2020: There were no changes in benefit terms from the amounts reported for these fiscal years.

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

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

**Changes in Assumptions:**

2019-2020: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.



**Montgomery County Educational Service Center  
Notes to the Required Supplementary Information  
For The Fiscal Year Ended June 30, 2020**

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

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

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

**Note 2 - Net OPEB (Asset)/Liability**

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**School Employees Retirement System (SERS)**

**Changes in Benefit Terms:**

2017-2020: There were no changes in benefit terms from the amounts reported for these fiscal years.

**Changes in Assumptions:**

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

- (1) Discount Rate:

Prior Measurement Date	3.70%
Measurement Date	3.22%
- (2) Municipal Bond Index Rate:

Prior Measurement Date	3.62%
Measurement Date	3.13%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	3.70%
Measurement Date	3.22%

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

- (1) Discount Rate:

Prior Measurement Date	3.63%
Measurement Date	3.70%
- (2) Municipal Bond Index Rate:

Prior Measurement Date	3.56%
Measurement Date	3.62%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Prior Measurement Date	3.63%
Measurement Date	3.70%

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

**Montgomery County Educational Service Center**  
**Notes to the Required Supplementary Information**  
**For The Fiscal Year Ended June 30, 2020**

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

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

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

**State Teachers Retirement System (STRS)**

**Changes in Benefit Terms:**

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

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

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

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

**Montgomery County Educational Service Center  
Notes to the Required Supplementary Information  
For The Fiscal Year Ended June 30, 2020**

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**Changes in Assumptions:**

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

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

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

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

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**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

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

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Federal Receipts</b>	<b>(1) Federal Expenditures</b>
<b>U.S. Department of Agriculture</b>				
<i>Passed through Ohio Department of Education</i>				
Child Nutrition Cluster:				
School Breakfast Program	10.553	N/A	\$41,808	\$41,808
COVID-19 School Breakfast Program	10.553	N/A	2,549	2,549
National School Lunch Program	10.555	N/A	67,289	67,289
COVID-19 National School Lunch Program	10.555	N/A	4,095	4,095
Total Child Nutrition Cluster			<u>115,741</u>	<u>115,741</u>
Total U.S. Department of Agriculture			<u>115,741</u>	<u>115,741</u>
<b>U.S. Department of Education</b>				
<i>Passed through Ohio Department of Education</i>				
Special Education Cluster (IDEA):				
Special Education Grants to States	84.027	H027A170111 / H027A190111	1,760,062	1,703,074
Special Education Preschool Grants	84.173	H173A170119 / H173A180119	66,571	64,411
Total Special Education Cluster (IDEA)			<u>1,826,633</u>	<u>1,767,485</u>
English Language Acquisition State Grants	84.365	S365A180035	6,353	17,548
Title I Grants to Local Educational Agencies	84.010	S010A180035 / S010A190035	149,058	144,686
Safe and Drug-Free Schools and Communities National Programs	84.184	N/A	17,739	-
Special Education - State Personnel Development	84.323	N/A	3,984	3,000
Supporting Effective Instruction State Grants	84.367	S367A190034	-	2,402
COVID-19 Education Stabilization Fund - Governors Emergency Education Relief Fund	84.425C	S425C200040	-	59,544
Total U.S. Department of Education			<u>2,003,767</u>	<u>1,994,665</u>
<b>U.S. Department of Defense</b>				
<i>Passed through RTI International</i>				
DOD, NDEP, DOTC-STEM Education Outreach Implementation	12.560	W911NF1920007	103,676	66,952
Total U.S. Department of Defense			<u>103,676</u>	<u>66,952</u>
<b>U.S. Department of Health and Human Services</b>				
<i>Passed through Montgomery County, Ohio</i>				
Drug-Free Communities Support Program Grants	93.276	5H79SP080636-02	19,794	19,794
Total U.S. Department of Health and Human Services			<u>19,794</u>	<u>19,794</u>
Total Federal Financial Assistance			<u>\$2,242,978</u>	<u>\$2,197,152</u>

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

*The accompanying notes are an integral part of this schedule.*

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS  
2 CFR 200.510(b)(6)  
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Receipts and Expenditures of Federal Awards (the Schedule) includes the federal award activity of Montgomery County Educational Service Center (the Center) under programs of the federal government for the fiscal year ended June 30, 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 Center, it is not intended to and does not present the financial position or changes in net position of the Center.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE C – INDIRECT COST RATE**

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

**NOTE D - CHILD NUTRITION CLUSTER**

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

**NOTE E - MATCHING REQUIREMENTS**

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

# OHIO AUDITOR OF STATE KEITH FABER



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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

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

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Montgomery County Educational Service Center, Montgomery County, (the Center) as of and for the fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 4, 2021, wherein we noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Center.

### ***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the 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 Center's internal control. Accordingly, we have not opined on it.

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

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

***Compliance and Other Matters***

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the 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 Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

May 4, 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

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

To the Board of Education:

### ***Report on Compliance for the Major Federal Program***

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

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

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

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

***Opinion on the Major Federal Program***

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

***Report on Internal Control Over Compliance***

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program 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

May 4, 2021

**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER  
MONTGOMERY COUNTY**

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

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

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

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

None

**3. FINDINGS FOR FEDERAL AWARDS**

None

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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

2 CFR 200.511(b)

June 30, 2020

Finding Number	Finding Summary	Status	Additional Information
2019-001	Failure to Properly Maintain Federal Capital Assets	Corrective Action Taken and Finding is Fully Corrected	

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# OHIO AUDITOR OF STATE KEITH FABER



**MONTGOMERY COUNTY EDUCATIONAL SERVICE CENTER**

**MONTGOMERY 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 6/1/2021**

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

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)