CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY

SINGLE AUDIT

YEAR ENDED JUNE 30, 2020

OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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(800) 282-0370

Governing Board
Butler County Educational Service Center
400 N. Erie Blvd.
Hamilton, Ohio 45011

We have reviewed the *Independent Auditor's Report* of the Butler County Educational Service Center, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2019 through June 30, 2020. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Keith Faber
Auditor of State
Columbus, Ohio

January 15, 2021

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CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Governing Board
Butler County Educational Service Center:

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 Butler County Educational Service Center (the Service Center), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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 Butler County Educational Service Center as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 13 to the financial statements, during the year ended June 30, 2020, the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities.* Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butler County Educational Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the budgetary comparison information on pages 67 through 70 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2020 on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Service Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Butler County Educational Service Center (ESC) for the fiscal year ended June 30, 2020. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the ESC's financial statements.

Financial Highlights

Major financial highlights for fiscal year 2020 are listed below:

- The liabilities and deferred inflows of resources of the ESC exceeded its assets and deferred outflows of resources at year-end by $26,896,750. The deficit net position balance was driven by the recognition of the ESC's proportionate share of net pension liabilities of $40,512,076 and net OPEB liability of $10,042,249.
- In total, net position increased by $872,826.
- The ESC had $48,557,005 in expenses related to governmental activities; $45,609,273 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of $3,820,558 provided additional funding.
- The General Fund balance increased by $1,026,347 from $7,903,967 at June 30, 2019 to $8,930,314 at June 30, 2020.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the ESC's basic financial statements. The ESC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the ESC's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the ESC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the ESC is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the ESC that are principally supported by contract services and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the ESC include instruction, support services, administration and operation and maintenance of plant. The ESC has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The ESC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the ESC can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The ESC accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the ESC as a whole. Some funds are required to be established by State law. Also, the ESC may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit 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 ESC's own programs.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net position at year-end

The following table presents a condensed summary of the ESC's overall financial position at June 30, 2020 and 2019:

	FY2020	*Restated* FY2019
Current and other assets	$ 20,947,983	$ 14,360,504
Capital assets	3,156,414	3,286,573
Total assets	24,104,397	17,647,077
Deferred outflows of resources	10,714,193	14,894,586
Other liabilities	2,632,890	2,589,980
Long term liabilities:		
Net pension liability	40,512,076	39,217,516
Net OPEB liability	10,042,249	10,979,989
Other long term liabilities	3,087,992	3,040,350
Total liabilities	56,275,207	55,827,835
Deferred inflows of resources	5,440,133	4,483,404
Net position:		
Net investment in capital assets	1,204,414	1,213,573
Restricted	7,961,544	1,912,830
Unrestricted (deficit)	(36,062,708)	(30,895,979)
Total net position	$ (26,896,750)	$ (27,769,576)

The net pension liability is the largest single liability reported by the ESC at June 30, 2020 and is reported pursuant to GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27.* The next largest liability is the net other postemployment benefits (OPEB) liability, reported pursuant to GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ESC's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and net OPEB liability to the reported net position and subtracting the net OPEB asset and deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board (GASB) standards are national and apply to all government financial reports prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Prior accounting for pensions (GASB Statement No. 27) and OPEB (GASB Statement No. 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OPEB liability*. GASB Statement Nos. 68 and 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio statewide pension and OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

As required by GASB Statement Nos. 68 and 75, the required net pension liability and the net OPEB liability/(asset) equal the ESC's proportionate share of each plan's collective:

1. Present value of estimated future pension and OPEB benefits attributable to active and inactive employees' past service
2. Minus plan assets available to pay these benefits

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the ESC is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require, the retirement systems to provide health care to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

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

In accordance with GASB Statement Nos. 68 and 75, the ESC's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability, net OPEB liability and net OPEB asset, respectively, not accounted for as deferred inflows/outflows.

A significant portion of the ESC's positive net position ($7,961,544) represents resources that are subject to external restrictions on how they may be used. A portion of the ESC's net position ($1,204,414) reflects its net investment in capital assets. Capital assets are used to provide services to citizens and thus, these assets are not available for future spending. Unrestricted net position may be used to meet the ESC's ongoing obligations to students and creditors.

The unrestricted net position (deficit) at June 30, 2020 was ($36,062,708). However, if the components of recording the net pension liability and net OPEB asset/liability are removed, the ESC's unrestricted net position would be a positive $8,050,245. We feel this is important to mention as the management of the ESC has no control over the management of the State-wide retirement plans or the benefits offered; both of which control the net pension liability and net OPEB asset/liability that significantly impact the ESC's financial statements.

Total assets increased by $6,457,320, or 37%. The increase in current and other assets was driven by an increase in intergovernmental receivables. While the ESC was in the process of applying for a new multi-year grant agreement for the Federal Head Start program during the prior fiscal year, the ESC received funding for five months to cover any funding gaps through June 30, 2019. Subsequently, the ESC was awarded a five-year grant in July 2019. Additionally, the ESC was awarded funding from the Federal CARES Act to COVID-19 related costs.

Total liabilities, excluding the net pension and net OPEB liabilities, increased by only $90,552, or 2%. The net pension liability increased due to lower investment performance. The net OPEB liability decreased due to better than projected economic experience assumptions.

B. Governmental Activities during fiscal year 2020

The following table presents a condensed summary of the ESC's activities during fiscal years 2020 and 2019 and the resulting change in net position:

	FY2020	*Restated* FY2019
Revenues:		
Program revenues:		
Charges for services and sales	$ 21,776,795	$ 25,027,358
Operating grants and contributions	23,832,478	10,268,676
Total program revenues	45,609,273	35,296,034
General revenues:		
Grants and entitlements	1,422,808	1,289,583
Investment earnings	119,671	155,172
Miscellaneous	2,278,079	2,506,111
Total general revenues	3,820,558	3,950,866
Total revenues	49,429,831	39,246,900
Expenses:		
Instruction	14,387,417	13,261,563
Support services:		
Pupil	17,555,511	15,179,960
Instructional staff	1,442,634	1,558,445
Governing Board	15,454	14,359
Administration	4,837,145	4,142,147
Fiscal	955,978	922,151
Operation and maintenance of plant	2,640,561	2,159,766
Pupil transportation	144,222	85,693
Central	3,104,573	3,144,727
Community service	3,387,991	2,516,750
Interest and fiscal charges	85,519	90,577
Total expenses	48,557,005	43,076,138
Change in net position	872,826	(3,829,238)
Beginning net position	(27,769,576)	(23,940,338)
Ending net position	$ (26,896,750)	$ (27,769,576)

Of the total governmental activities revenues of $49,429,831, $45,609,273 (92%) is from program revenue. This means that the ESC relies primarily on program revenue to fund the majority of the cost of services. General revenues provide the additional funding needed for the remaining cost of services provided to the citizens. Of those general revenues, $1,422,808 (37%) is from state funding.

The ESC experienced an increase of about $10.2 million, or 26%, in total revenue, while total expenses increased $5.5 million, or 13%. The increase in revenue was driven by the significant increase in Federal Head Start grant funding, with the timing in grant awards as previously discussed. The ESC also received CARES Act funding during the fiscal year. These increases were partially offset by decreases in charges for services, as demand for services significantly decreased during the second half of the year due to the COVID-19 pandemic and related closures of area school districts.

The increase in expenses was primarily due to increases in pension and OPEB expenses between fiscal years, with pension expenses increasing from $6,261,445 in fiscal year 2019 to $8,650,449 in fiscal year 2020 and OPEB expenses increasing from a negative OPEB expense of $1,659,162 in fiscal year 2019 to a positive OPEB expense of $342,670 in fiscal year 2020. The financial performance of the state-wide retirement systems can vary significantly between years due to investment market fluctuations, changes in assumptions and differences between actuarial expectations compared to actual results, all of which are beyond the control of ESC's management.

Governmental Activities

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 94% of the cost of the general government programs was recouped in program revenues. Support services costs were $30,696,078, but program revenue contributed to fund 92% of those costs. Thus, general revenues were used to support of remainder of the support services costs.

Governmental Activities

		Total Cost of Services	Program Revenue	Revenues as a % of Total Costs	Net Cost of Services
Instruction	$	14,387,417	14,787,974	103%	(400,557)
Support services		30,696,078	28,323,659	92%	2,372,419
Community service		3,387,991	2,497,640	74%	890,351
Interest and fiscal charges		85,519	-	0%	85,519
Total	$	48,557,005	45,609,273	94%	2,947,732

FINANCIAL ANALYSIS OF THE ESC'S INDIVIDUAL FUNDS

Governmental funds

The ESC has three major governmental funds: the General Fund, the Federal Head Start Fund and the Miscellaneous Special Revenue Fund. Assets of these three funds comprise $19,396,046 (94%) of the total $20,554,671 in governmental funds' assets.

General Fund. Fund balance at June 30, 2020 was $8,930,314, with an unassigned fund balance of $8,786,376. The fund balance increased by $1,026,347. The unassigned fund balance represents approximately 36% of current-year general fund expenditures. Total revenue decreased 7% due to decreased contractual services revenue, as demand for services decreased due to the COVID-19 pandemic. The decline in services led to a 5% decrease in expenditures.

Federal Head Start Fund. This fund is used to account for the activity related to the federal grant for the Head Start program. The fund balance at June 30, 2020 will be used to meet program requirements.

Miscellaneous Special Revenue Fund. This fund is used to account for miscellaneous local programs that are funded by grants and contributions. The fund was consistent with the prior year, with fund balance only increasing by $75,294.

GENERAL FUND BUDGETARY HIGHLIGHTS

There are no requirements for the ESC identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The annual appropriation resolution is legally enacted by the ESC at the fund level of expenditures, which is the legal level of budgetary control. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

The schedule comparing the ESC's original and final budgets and actual results is included in the supplementary information. Overall, the final budgets increased from the original budgets as the ESC received data on actual programs provided and adjusted accordingly.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2020, the ESC had $3,156,414 invested in capital assets, including furniture, equipment, vehicles, and buildings and improvements. See Note 3 to the financial statements for more detail.

Capital Assets at Year-End
(Net of Depreciation)

	FY2020	*Restated* FY2019
Land	$ 477,184	$ 477,184
Equipment and furniture	1,040,853	1,100,368
Vehicles	205,701	199,952
Buildings and improvements	1,432,676	1,509,069
Total	$ 3,156,414	$ 3,286,573

Debt. The ESC entered into a $2,937,000 lease-purchase agreement for the purchase and improvement of new office facilities in October 2009 and is scheduled to mature in December 2031. See Note 7 to the financial statements for more detail.

ECONOMIC FACTORS

The State of Ohio has granted the ESC additional funds through the Governor's Emergency Education Relief program and for health/hygiene training. We have also been awarded an additional $2 per average daily membership by the State as a result of being a High Performing educational service center.

Due to COVID-19, the Early Childhood Programs are struggling to fill all the slots that are funded by the State. It is our hope that the State will grant us a one-time exception so that we do not have to make any cuts.

REQUESTS FOR ADDITIONAL INFORMATION

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Butler County Educational Service Center, 400 N. Erie Blvd. Suite A, Hamilton, Ohio 45011.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Statement of Net Position
June 30, 2020

	Governmental Activities
Assets:	
Equity in pooled cash and investments	$ 10,260,779
Receivables:	
Accounts	955,184
Intergovernmental	8,564,708
Net OPEB asset	1,167,312
Nondepreciable capital assets	477,184
Depreciable capital assets, net	2,679,230
Total assets	24,104,397
Deferred Outflows of Resources:	
Pension	8,285,770
OPEB	2,428,423
Total deferred outflows of resources	10,714,193
Liabilities:	
Accounts payable	62,900
Accrued wages and benefits	2,492,909
Intergovernmental payable	70,379
Accrued interest payable	6,702
Noncurrent liabilities:	
Due within one year	337,941
Due within more than one year:	
Net pension liability	40,512,076
Net OPEB liability	10,042,249
Other amounts due more than one year	2,750,051
Total liabilities	56,275,207
Deferred Inflows of Resources:	
Pension	1,252,226
OPEB	4,187,907
Total deferred inflows of resources	5,440,133
Net Position:	
Net investment in capital assets	1,204,414
Restricted for:	
Head Start programs	5,933,843
OPEB benefits	159,839
Other purposes	1,867,862
Unrestricted (deficit)	(36,062,708)
Total net position	$ (26,896,750)

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Statement of Activities
Year Ended June 30, 2020

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	$ 5,430,673	$ 5,102,213	$ 205,348	$ (123,112)
Special education	8,956,744	4,714,948	4,765,465	523,669
Support services:				
Pupil	17,555,511	6,538,430	10,760,902	(256,179)
Instructional staff	1,442,634	671,480	790,078	18,924
Governing Board	15,454	-	-	(15,454)
Administration	4,837,145	769,808	2,729,673	(1,337,664)
Fiscal	955,978	-	165,363	(790,615)
Operation and maintenance of plant	2,640,561	1,267,810	1,753,298	380,547
Pupil transportation	144,222	122,541	-	(21,681)
Central	3,104,573	2,589,565	164,711	(350,297)
Non-instructional services:				
Community service	3,387,991	-	2,497,640	(890,351)
Interest and fiscal charges	85,519	-	-	(85,519)
Total Governmental Activities	$ 48,557,005	$ 21,776,795	$ 23,832,478	(2,947,732)
General Revenues:				
Grants and entitlements not restricted to specific programs				1,422,808
Investment earnings				119,671
Miscellaneous				2,278,079
Total general revenues				3,820,558
Change in net position				872,826
Net position beginning of year, *restated*				(27,769,576)
Net position end of year				$ (26,896,750)

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Balance Sheet
Governmental Funds
June 30, 2020

	General	Federal Head Start	Miscellaneous Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and investments	$ 8,717,360	$ 335,941	$ 913,665	$ 293,813	$ 10,260,779
Receivables:					
Accounts	570,066	-	385,118	-	955,184
Intergovernmental	491,000	7,158,916	49,980	864,812	8,564,708
Interfund receivable	774,000	-	-	-	774,000
Total assets	10,552,426	7,494,857	1,348,763	1,158,625	20,554,671
Liabilities:					
Accounts payable	2,619	49,513	10,768	-	62,900
Accrued wages and benefits	1,520,744	572,701	283,385	116,079	2,492,909
Intergovernmental payable	20,665	41,807	4,613	3,294	70,379
Interfund payable	-	151,000	432,000	191,000	774,000
Compensated absences payable	27,722	22,235	2,117	-	52,074
Total liabilities	1,571,750	837,256	732,883	310,373	3,452,262
Deferred Inflows of Resources:					
Unavailable revenue	50,362	5,409,646	5,000	567,239	6,032,247
Fund Balances:					
Restricted	-	1,247,955	610,880	301,652	2,160,487
Assigned	143,938	-	-	-	143,938
Unassigned	8,786,376	-	-	(20,639)	8,765,737
Total fund balances	8,930,314	1,247,955	610,880	281,013	11,070,162
Total liabilities, deferred inflows of resources and fund balances	$ 10,552,426	$ 7,494,857	$ 1,348,763	$ 1,158,625	$ 20,554,671

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Reconciliation of Total Governmental Fund Balances to
Net Position of Governmental Activities
June 30, 2020

Total Governmental Fund Balance		$ 11,070,162
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.		3,156,414
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.		6,032,247
Long-term liabilities, including lease purchase and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:		
Lease purchase agreement	(1,952,000)	
Accrued interest	(6,702)	
Compensated absences	(1,083,918)	(3,042,620)
The net pension and net OPEB liabilities are not due and payable in the current period. The net OPEB assets are not available to pay for current period expenditures. Therefore, the assets, liabilities and related deferred outflows and inflows of resources are not reported in the governmental funds:		
Deferred outflows - pension and OPEB	10,714,193	
Deferred inflows - pension and OPEB	(5,440,133)	
Net OPEB asset	1,167,312	
Net pension liability	(40,512,076)	
Net OPEB liability	(10,042,249)	(44,112,953)
Net Position of Governmental Activities		$ (26,896,750)

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2020

	General	Federal Head Start	Miscellaneous Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:					
Contractual services	$ 21,822,619	$ -	$ -	$ -	$ 21,822,619
Interest	118,783	-	-	888	119,671
Intergovernmental	1,422,808	11,993,203	2,391,334	2,875,533	18,682,878
Other local revenues	2,304,361	-	2,230,191	92,477	4,627,029
Total revenues	25,668,571	11,993,203	4,621,525	2,968,898	45,252,197
Expenditures:					
Current:					
Instruction:					
Regular	5,022,172	-	80,529	100,742	5,203,443
Special education	4,606,217	1,878,970	242,238	1,262,285	7,989,710
Support services:					
Pupil	6,405,251	4,022,645	3,654,185	1,209,524	15,291,605
Instructional staff	655,150	465,438	-	96,502	1,217,090
Governing Board	14,444	-	-	-	14,444
Administration	2,188,076	1,634,287	332,680	30,503	4,185,546
Fiscal	633,484	69,266	-	92,020	794,770
Operation and maintenance of plant	1,239,160	1,188,713	33,620	-	2,461,493
Pupil transportation	123,559	-	-	-	123,559
Central	2,493,935	17,407	119,365	-	2,630,707
Non-instructional services:					
Community service	1,053,842	1,665,456	83,614	6,908	2,809,820
Debt Service:					
Principal	121,000	-	-	-	121,000
Interest and fiscal charges	85,934	-	-	-	85,934
Total expenditures	24,642,224	10,942,182	4,546,231	2,798,484	42,929,121
Net change in fund balance	1,026,347	1,051,021	75,294	170,414	2,323,076
Fund balance, beginning of year, *restated*	7,903,967	196,934	535,586	110,599	8,747,086
Fund balance, end of year	$ 8,930,314	$ 1,247,955	$ 610,880	$ 281,013	$ 11,070,162

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds	$ 2,323,076
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital asset additions	543,140
Depreciation expense	(526,982)
Losses on the sale or disposal of capital assets are reported on the statement of activities and not as expenditures of the governmental funds.	(146,317)
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	121,000
In the statement of activities, interest is accrued on the outstanding lease-purchase, whereas in governmental funds, an interest expenditure is reported when due.	415
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current resources and therefore are not reported as expenditures in governmental funds.	(142,046)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	4,177,634
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows of resources.	
Pension	3,445,646
OPEB	70,379
Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liabilities and net OPEB assets and liabilities are reported as pension expense and OPEB expense in the statement of activities:	
Pension	(8,650,449)
OPEB	(342,670)
Change in Net Position of Governmental Activities	$ 872,826

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Statement of Net Position
Fiduciary Fund
June 30, 2020

	Custodial
ASSETS	
Equity in pooled cash and investments	$ 332,863
Accounts receivable	25,570
Intergovernmental receivable	390,567
Total assets	749,000
LIABILITIES	
Accounts payable	9,668
Due to other governments	491,000
Total liabilities	500,668
NET POSITION	
Restricted for other organizations	$ 248,332

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Changes in Fiduciary Net Position
Fiduciary Fund
Year Ended June 30, 2020

	Custodial
Additions:	
Intergovernmental funds for other organizations	$ 1,933,332
Interest earnings for other organizations	2,913
Other amounts collected for other organizations	700,644
Total additions	2,636,889
Deductions:	
Distributions as fiscal agent	3,094,224
Total deductions	3,094,224
Change in net position	(457,335)
Net position, beginning of year, *restated*	705,667
Net position, end of year	$ 248,332

See accompanying notes to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Butler County Educational Service Center (the "ESC") 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 ESC's accounting policies are described below.

A. Reporting Entity

Butler County Educational Service Center is the successor to the former Butler County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational ESCs and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board".

The Governing Board consists of 5 members elected by the voters of the County. This board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC provides services to approximately 50,000 students in nine school districts throughout the County.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. This includes general and preschool operations. Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes. The ESC has no component units.

The ESC serves as the fiscal agent for the Butler County Family and Children First Council but is not accountable as defined in GASB Statement No. 61 for this organization, so these activities have been included in the ESC's financial statements as a custodial fund. The Family and Children First Council is a separate agency, which provides services to qualified Butler County families and children.

The ESC is associated with two organizations, one of which is defined as an insurance purchasing pool and one is a jointly governed organization. These organizations are the Southwest Ohio Computer Association and the Butler Health Plan. The organizations are presented in Notes 10 and 11 to the basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

B. Basis of Presentation

Government-wide Financial Statements. The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the ESC that are governmental and those that are considered business-type activities. The ESC has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the ESC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants 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 ESC, 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 ESC.

Fund Financial Statements. Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred inflow of resources are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

Fiduciary funds are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of net position. Fiduciary fund operating statements present additions to (i.e., revenues) and deductions from (i.e., expenses) net position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

C. Fund Accounting

The ESC uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the ESC are grouped into the categories governmental and fiduciary.

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

> ***General Fund*** - The general fund 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 ESC for any purpose provided it is expended or transferred according to the general laws of Ohio.
>
> ***Federal Head Start Fund*** – This fund is used to account for the Federal Head Start grants.
>
> ***Miscellaneous Special Revenue Fund*** – This fund is used to account for miscellaneous local programs funded grants and contributions.

Fiduciary Funds report on net position and changes in net position. The ESC's fiduciary funds consist of a custodial fund. These assets are not available for the ESC’s use. Custodial funds are used to account for the ESC’s fiscal agent activities for Butler County Family and Children First Council.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

D. Basis of Accounting

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the ESC is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, accounts and grants.

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

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

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.

Non-exchange transactions, in which the ESC receives value without directly giving 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 year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the ESC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Inflows of Resources. In addition to liabilities, the balance sheet reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources until that time. For the ESC, deferred inflows of resources represent receivables that will not be collected within the available period (sixty days after fiscal year-end), pension and OPEB. Deferred inflows of resources from unavailable revenue are reported only on the governmental funds' balance sheet. Deferred inflows of resources from pension and OPEB are reported on the government-wide statement of net position (see Notes 5 and 6).

Deferred Outflows 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 represent 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 ESC, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB (see Notes 5 and 6).

E. Cash and Investments

To improve cash management, all cash received by the ESC is pooled in central bank accounts. Monies for all funds are maintained in this pool and individual fund integrity is maintained through ESC records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet.

During fiscal year 2020, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Investments in STAR Ohio are valued at the net asset value per share provide by STAR Ohio on an amortized cost basis at June 30, 2020, which approximates fair value.

For fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $100 million, requiring the excess amount to be transacted the following business day(s), but only to the $100 million limit. All accounts of the participant will be combined for these purposes.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund except for those specifically related to the private-purpose trust funds in accordance with Board policy.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

F. Capital Assets and Depreciation

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The ESC defines capital assets as those with an individual cost of more than $500 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their acquisition cost as of the date received. The ESC 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.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets are depreciated except for land. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	10 years
Equipment and furniture	5 years
Building and improvements	20-50 years

G. Interfund Balances

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

H. 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 ESC will compensate the employees for the benefits through paid time off or some other means. 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 ESC 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 ESC's termination policy.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and/or 20 years of service regardless of age were considered expected to retire.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only if they have matured, for example, as a result of employee resignations and retirements.

I. 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. Net pension and OPEB liabilities should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension and OPEB plans' fiduciary net position is not sufficient for payment of those benefits.

J. Pensions/Other Postemployment Benefits (OPEB)

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

K. Fund Balance

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

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

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

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

Assigned – Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the ESC Governing Board. The Board has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The ESC 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.

L. Net Position

Net position represents the difference between assets and deferred outflows of resources, reduced by liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The ESC applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

M. Estimates

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

2. DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC 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 ESC has identified as not required for use within the current two-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.

2. DEPOSITS AND INVESTMENTS *(continued)*

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.

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the 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, government national mortgage association, and student loan marketing 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 that 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 that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).
7. Commercial paper notes issued by any corporation for profit that is incorporated under the laws of the United States or any state pursuant to specifications within Ohio Revised Code.
8. Bankers’ acceptances of banks that are members of the federal deposit insurance corporation to which obligations meet specifications within Ohio Revised Code.

2. DEPOSITS AND INVESTMENTS *(continued)*

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, 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 No. 40 “Deposit and Investment Risk Disclosures”:

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the ESC’s deposits may not be returned to it. The ESC does not have a custodial credit risk policy. At year-end, $2,460,195 of the ESC’s bank balance of $2,710,195 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution’s trust department or agent, but not in the ESC’s name.

Investments

The ESC’s investments at June 30, 2020 consist of an investment in STAR Ohio of $8,384,005, which is valued at the net asset value per share provided by STAR Ohio on an amortized cost method which approximates fair value. Investments in STAR Ohio were rated AAAm by Standard & Poor’s.

3. CAPITAL ASSETS

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

	Restated Balance 7/1/19	Additions	Disposals	Balance 6/30/20
Governmental Activities				
Nondepreciable:				
Land	$ 477,184	$ -	$ -	$ 477,184
Depreciable:				
Equipment and furniture	3,431,191	490,134	(181,093)	3,740,232
Vehicles	445,576	53,006	-	498,582
Buildings and improvements	2,194,315	-	-	2,194,315
Subtotal	6,071,082	543,140	(181,093)	6,433,129
Totals at historical cost	6,548,266	543,140	(181,093)	6,910,313
Less accumulated depreciation:				
Equipment and furniture	2,330,823	403,332	(34,776)	2,699,379
Vehicles	245,624	47,257	-	292,881
Buildings and improvements	685,246	76,393	-	761,639
Total accumulated depreciation	3,261,693	526,982	(34,776)	3,753,899
Capital assets, net	$ 3,286,573	$ 16,158	$ (146,317)	$ 3,156,414

A restatement was necessary as part of the ESC's implementation of GASB Statement No. 84; see Note 13 for additional information.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	$ 2,765
Special	22,743
Support services:	
Pupil	130,189
Administration	328,284
Fiscal	427
Operation and maintenance of plant	8,868
Central	33,362
Community service	344
Total depreciation expense	$ 526,982

4. RISK MANAGEMENT

The ESC maintains comprehensive insurance with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property damage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

5. DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

The net pension liability represents the ESC's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability 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 this estimate annually.

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

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for contractually-required pension contributions outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

Benefits	Eligible to Retire on or before August 1, 2017*	Eligible to Retire on or after August 1, 2017
Full Benefits	Age 65 with 5 years of service credit; or 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 year of service; 2.2% for the first 30 years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14% 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% for plan members and 14% 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 14% was allocated to only three funds (Pension Trust Fund, Death Benefit Fund and Medicare B Fund).

The ESC's contractually required contribution to SERS was $2,198,856 for fiscal year 2020. Of this amount, $70,379 is reported as an intergovernmental payable.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2% of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 years of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12% of the 14%-member rate goes to the DC Plan and 2% goes 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 services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 or later.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2020, plan members were required to contribute 14% of their annual covered salary. The ESC was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2020 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was $1,246,790 for fiscal year 2020.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources for 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 ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	SERS	STRS	Total
Proportionate Share of the Net Pension Liability	$ 24,925,929	$ 15,586,147	$ 40,512,076
Proportion of the Net Pension Liability	0.4166003%	0.07047963%	
Change in Proportion	0.0067077%	-0.00111571%	
Pension Expense	$ 5,662,772	$ 2,987,677	$ 8,650,449

5. DEFINED BENEFIT PENSION PLANS *(continued)*

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 632,066	$ 126,898	$ 758,964
Change in assumptions	-	1,830,894	1,830,894
Change in ESC's proportionate share and difference in employer contributions	1,054,495	1,195,771	2,250,266
ESC contributions subsequent to the measurement date	2,198,856	1,246,790	3,445,646
Total Deferred Outflows of Resources	$ 3,885,417	$ 4,400,353	$ 8,285,770
Deferred Inflows of Resources			
Net difference between projected and actual earnings on pension plan investments	$ 319,955	$ 761,766	$ 1,081,721
Differences between expected and actual experience	-	67,470	67,470
Change in ESC's proportionate share and difference in employer contributions	-	103,035	103,035
Total Deferred Inflows of Resources	$ 319,955	$ 932,271	$ 1,252,226

$3,445,646 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	$ 1,712,966	$ 1,480,717	$ 3,193,683
2022	(506,522)	663,853	157,331
2023	(21,291)	10,096	(11,195)
2024	181,453	66,626	248,079
	$ 1,366,606	$ 2,221,292	$ 3,587,898

5. DEFINED BENEFIT PENSION PLANS *(continued)*

Actuarial Assumptions - SERS

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

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

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

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

Inflation	3.00%
Future Salary Increases, including Inflation	3.50% to 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investment expense, including inflation
Actuarial Cost Method	Entry Age Normal

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 for active members. 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% of male rates, and 110% of female rates. Mortality among disabled members were based upon the 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.

The actuarial assumptions used were based on the results of an actuarial experience study for the period ending July 1, 2010 to June 30, 2015 adopted by the Board on April 21, 2016.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

The long-term return expectation for the Pension Plan Investments has been determined 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 a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate – Total pension liability was calculated using the discount rate of 7.50%. 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%). 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.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate **–** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50%, 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%), or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
ESC's proportionate share of the net pension liability	$34,930,138	$24,925,929	$16,536,148

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	12.50% at age 20 to 2.50% at age 65
Payroll increases	3.00%
Investment rate of return	7.45%, net of investment expenses, including inflation
Discount rate of return	7.45%
Cost-of-living adjustments (COLA)	0%

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

The actuarial assumptions were based on the results of an actual experience study for the period July 1, 2011 through June 30, 2016.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

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

Asset Class	Target Allocation*	Long Term Expected Real 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% as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes 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. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not 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% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

5. DEFINED BENEFIT PENSION PLANS *(continued)*

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

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
ESC's proportionate share of the net pension liability	$22,777,418	$15,586,147	$9,498,368

<u>Social Security System</u>

All employees not covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2020, members of the Governing Board have elected social security. The Board's liability is 6.2% of wages paid.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB)

Net OPEB Liability (Asset)

The net OPEB liability (asset) reported on the statement of net position represents a liability to (or assets for) employees for OPEB. OPEB is a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. 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 OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

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

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

GASB Statement No. 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability (asset). Resulting adjustments to the net OPEB liability (asset) would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net OPEB liability* or fully-funded benefits as a long-term *net OPEB asset* on the accrual basis of accounting. Any liability for contractually-required OPEB contributions outstanding at the end of the fiscal year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting.

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description—The ESC contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB Statement No. 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

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% of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, there was no portion allocated 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, the minimum compensation amount was $19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the ESC's surcharge obligation was $70,379.

Plan Description - State Teachers Retirement System (STRS)

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

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

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

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The ESC's proportion of the net OPEB liability (asset) was based on the ESC's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability/(Asset)	$ 10,042,249	$ (1,167,312)	$ 8,874,937
Proportion of the Net OPEB Liability/(Asset)	0.3993276%	0.07047963%	
Change in Proportion	0.0035482%	-0.00111571%	
(Negative) OPEB Expense	$ 637,365	$ (294,695)	$ 342,670

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

	SERS	STRS	Total
Deferred Outflows of Resources			
Differences between expected and actual experience	$ 147,413	$ 105,824	$ 253,237
Net difference between projected and actual earnings on OPEB plan investments	24,105	-	24,105
Change in assumptions	733,471	24,534	758,005
Change in ESC's proportionate share and difference in employer contributions	1,041,573	281,124	1,322,697
ESC contributions subsequent to the measurement date	70,379	-	70,379
Total Deferred Outflows of Resources	$ 2,016,941	$ 411,482	$ 2,428,423

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

	SERS	STRS	Total
Deferred Inflows of Resources			
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 73,316	$ 73,316
Differences between expected and actual experience	2,206,215	59,388	2,265,603
Change in assumptions	562,737	1,279,822	1,842,559
Difference between actual contributions and proportionate share of contributions	-	6,429	6,429
Total Deferred Inflows of Resources	$ 2,768,952	$ 1,418,955	$ 4,187,907

$70,379 reported as deferred outflows of resources related to OPEB resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability/(asset) in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	$ (240,375)	$ (215,960)	$ (456,335)
2022	(91,102)	(215,960)	(307,062)
2023	(84,026)	(186,576)	(270,602)
2024	(85,177)	(176,269)	(261,446)
2025	(194,658)	(214,990)	(409,648)
2026	(127,052)	2,282	(124,770)
	$ (822,390)	$ (1,007,473)	$ (1,829,863)

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.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will consider the employee's entire career with the employer and 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, prepared as of June 30, 2019, are presented below:

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

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

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%, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

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 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 in the following table:

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

Discount Rate **–** The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22%. The discount rate used to measure total OPEB liability at June 30, 2018 was 3.70%. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and SERS at the state statute contribution rate of 2.00% of projected covered employee payroll each year, which includes a 1.50% payroll surcharge and 0.50% of contributions from 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% 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.

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

Sensitivity of the ESC's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and 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 calculated using the discount rate of 3.22%, as well as what the ESC's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.22%) and one percentage point higher (4.22%) than the current rate.

	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
ESC's proportionate share of the net OPEB liability	$12,189,387	$10,042,249	$8,335,025

The following table presents the net OPEB liability calculated using current health care cost trend rates, as well as what the ESC's net OPEB liability would be if it were calculated using health care cost trend rates that are one percentage point lower (6.00% decreasing to 3.75%) and one percentage point higher (8.00% decreasing to 5.75%) than the current rates.

	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%)
ESC's proportionate share of the net OPEB liability	$8,045,876	$10,042,249	$12,690,954

Actuarial Assumptions - STRS

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Salary increases	12.50% at age 20 to 2.50% at age 65	
Payroll increases	3.00%	
Investment rate of return	7.45%, net of investment expenses, including inflation	
Discount rate of return	7.45%	
Health care cost trends	Initial	Ultimate
Medical		
Pre-Medicare	5.87%	4.00%
Medicare	4.98%	4.00%
Prescription Drug		
Pre-Medicare	7.73%	4.00%
Medicare	9.62%	4.00%

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

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

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

Since the prior measurement date, 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.

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

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

6. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION (OPEB) *(continued)*

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

Sensitivity of the ESC's Proportionate Share of the Net OPEB Asset to Changes in the Discount Rate and the Health Care Cost Trend Rates **–** The following table presents the ESC's proportionate share of the net OPEB asset calculated using the current period discount rate assumption of 7.45%, as well as what the ESC's proportionate share of the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45%) and one percentage point higher (8.45%) than the current rate. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower and 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%)
ESC's proportionate share of the net OPEB (asset)	($996,068)	($1,167,312)	($1,311,288)

	1% Decrease	Current Trend Rate	1% Increase
ESC's proportionate share of the net OPEB (asset)	($1,323,678)	($1,167,312)	($975,801)

7. LONG-TERM OBLIGATIONS

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

	Restated Balance 7/1/19	Additions	Reductions	Balance 6/30/20	Due within One Year
Direct borrowing:					
Lease-Purchase Agreement	$ 2,073,000	$ -	$ (121,000)	$ 1,952,000	$ 127,000
Compensated Absences	967,350	306,672	(138,030)	1,135,992	210,941
Total	$ 3,040,350	$ 306,672	$ (259,030)	$ 3,087,992	$ 337,941

A restatement of compensated absences was necessary as part of the ESC's implementation of GASB Statement No. 84; see Note 13 for additional information.

In October, 2009, the ESC entered into a direct borrowing lease-purchase agreement in the amount of $2,937,000 for the purchase of a building and improvements through U.S. Bank. The final payment will be made in December 2031. Principal and interest payments were made from the General Fund. The land, building, improvements, and equipment acquired by this lease-purchase agreement were $2,900,000.

Compensated absences will be paid from the funds from which the employees' salaries are paid.

The following is a schedule of future minimum lease payments required under the direct borrowing lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2020:

Fiscal Year Ending June 30,	
2021	$ 207,639
2022	207,110
2023	207,345
2024	208,303
2025	207,345
2026 - 2030	1,041,345
2031 - 2032	416,228
Total	2,495,315
Less amount representing interest	(543,315)
Present value of minimum lease payments	$ 1,952,000

8. FUND BALANCES

Fund balance is classified as restricted, assigned and/or unassigned based primarily on the extent to which the ESC 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	Federal Head Start	Miscellaneous Special Revenue	Other Governmental Funds	Total Governmental Funds
Restricted for					
Scholarships	$ -	$ -	$ -	$ 21,558	$ 21,558
Data Communications	-	-	-	8,281	8,281
Title I-D Delinquent	-	-	-	71,490	71,490
Engage Federal Program	-	-	-	88,840	88,840
Federal Head Start	-	1,247,955	-	-	1,247,955
Various Grants and Programs	-	-	610,880	111,483	722,363
Total Restricted	-	1,247,955	610,880	301,652	2,160,487
Assigned to					
Public School Support	57,345	-	-	-	57,345
Severances	20,000	-	-	-	20,000
Other	66,593	-	-	-	66,593
Total Assigned	143,938	-	-	-	143,938
Unassigned (Deficit)	8,786,376	-	-	(20,639)	8,765,737
Total Fund Balance	$ 8,930,314	$ 1,247,955	$ 610,880	$ 281,013	$ 11,070,162

At June 30, 2020, the ESC had a deficit balance in the following funds:

Public School Preschool Fund	$19,967
Miscellaneous State Grants Fund	672

The deficit fund balances were created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

9. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2020 consisted of the following:

	Interfund	
	Receivable	Payable
General Fund	$ 774,000	$ -
Federal Head Start Fund	-	151,000
Miscellaneous Special Revenue Fund	-	432,000
Other Governmental Funds	-	191,000
Total	$ 774,000	$ 774,000

The interfund loans were made to provide operating capital for grant programs that operate on a reimbursement-basis.

10. JOINTLY GOVERNED ORGANIZATION

Southwestern Ohio Computer Association

The Southwestern Ohio Computer Association (SWOCA), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the three-county consortium supports SWOCA based upon per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of member districts. The degree of control exercised by any participating district is limited to its representation on the Board. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

11. INSURANCE PURCHASING POOL

Butler Health Plan

The ESC participates in the Butler Health Plan (BHP), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. Financial information can be obtained from BHP at PO Box 526, Middletown, Ohio 45042.

12. CONTINGENCIES

Grants

The ESC 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 ESC at June 30, 2020.

Litigation

As of the balance sheet date, the ESC was not party to legal proceedings.

COVID-19

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 ensuing emergency measures impacted the second half of fiscal year 2020 and will impact subsequent periods of the ESC. The impact on the ESC’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

13. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT

For fiscal year 2020, the ESC has implemented GASB Statement No. 84, *Fiduciary Activities*, GASB Implementation Guide No. 2019-2, *Fiduciary Activities*, and GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*.

GASB Statement No. 84 establishes specific criteria for identifying activities that should be reported as fiduciary activities. Due to the implementation of GASB Statement No. 84, the ESC will no longer report a private-purpose trust fund. The ESC reviewed its agency funds and certain funds will be reported in the new fiduciary classification of custodial funds, while other funds have been reclassified as governmental funds.

GASB Statement No. 88 requires disclosures on direct borrowings and direct placements. This Statement also refines debt for purposes of disclosures and requires additional essential information related to debt to be disclosed, including unused lines of credit, assets pledged for collateral and certain debt agreement terms. The requirements of this Statement have been incorporated into the ESC’s long-term obligations note disclosure.

13. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT (*continued*)

The implementation of GASB Statement No. 84 had the following effect on fund balances and net position as reported at June 30, 2019:

	Miscellaneous Special Revenue	Other Governmental Funds	Private-Purpose Trust	Custodial	Governmental Activities
Fund balance/ net position at June 30, 2019	$ -	$ (34,613)	$ 21,201	$ -	$ (28,358,588)
Adjustments:					
GASB 84 reclassifications	535,586	145,212	(21,201)	705,667	589,012
Restate fund balance / net position at June 30, 2019	$ 535,586	$ 110,599	$ -	$ 705,667	$ (27,769,576)

Required Supplementary Information

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC's Proportionate Share of the Net Pension Liability
School Employees Retirement System of Ohio
Last Seven Fiscal Years (1) (2)

	ESC's Proportion of the Net Pension Liability	ESC's Proportionate Share of the Net Pension Liability	ESC's Covered Payroll	ESC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.289958%	$ 17,242,872	$ 8,123,931	212.25%	65.52%
2015	0.289958%	14,674,609	8,510,707	172.43%	71.70%
2016	0.331773%	18,931,306	9,025,015	209.76%	69.16%
2017	0.330768%	24,209,142	9,285,021	260.73%	62.98%
2018	0.359859%	21,500,774	10,855,943	198.06%	69.50%
2019	0.409893%	23,475,309	14,391,741	163.12%	71.36%
2020	0.416600%	24,925,929	13,829,719	180.23%	70.85%

(1) Information prior to 2014 is not available. The ESC will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the ECS's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumptions. In measurement year 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2015. Significant changes included a reduction of the discount rate from 7.75% to 7.50%, a reduction in the wage inflation rate from 3.25% to 3.00%, a reduction in the payroll growth assumption used from 4.00% to 3.50%, reduction in the assumed real wage growth rate from 0.75% to 0.50%, update of the rates of withdrawal, retirement and disability to reflect recent experience, and transition from the RP-2000 mortality tables to the RP-2014 mortality tables for active members and service retired members and beneficiaries.

Changes of benefit and funding terms. In measurement year 2018, post-retirement increases in benefits included the following changes:

1. Members, or their survivors, retiring prior to January 1, 2018, receive a COLA increase of 3% of their base benefit on the anniversary of their initial date of retirement.
2. Members, or their survivors, retiring on and after January 1, 2018, receive a COLA increase on each anniversary of their initial date of retirement equal to the annual rate of increase in the CPI-W measured as of the June preceding the beginning of the applicable calendar year. The annual rate of increase shall not be less than 0%, nor greater than 2.5%. COLAs are suspended for calendar years 2018, 2019, and 2020.
3. Members, or their survivors, retiring on and after April 1, 2018, will have their COLA delayed for three years following their initial date of retirement.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC's Proportionate Share of the Net Pension Liability
State Teachers Retirement System of Ohio
Last Seven Fiscal Years (1) (2)

	ESC's Proportion of the Net Pension Liability	ESC's Proportionate Share of the Net Pension Liability	ESC's Covered Payroll	ESC's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.056516%	$ 16,375,008	$ 5,581,162	293.40%	69.30%
2015	0.056516%	13,746,725	6,218,592	221.06%	74.70%
2016	0.061307%	16,943,404	6,816,764	248.55%	72.09%
2017	0.062300%	20,853,795	7,047,629	295.90%	66.78%
2018	0.068202%	16,201,496	8,032,100	201.71%	75.30%
2019	0.071595%	15,742,207	8,787,557	179.14%	77.30%
2020	0.070480%	15,586,147	8,873,621	175.65%	77.40%

(1) Information prior to 2014 is not available. The ESC will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the ESC's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumptions. In measurement year 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2016. Significant changes included a reduction of the discount discount rate from 7.75% to 7.45%, the inflation assumption was lowered from 2.75% to 2.50%, the payroll growth assumption was lowered to 3.00%, and 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. The healthy and disabled mortality assumptions were updated to the RP-2014 mortality tables with generational improvement scale MP-2016. Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

Change in benefit terms. Effective July 1, 2017, the COLA was reduced to zero.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC Pension Contributions
School Employees Retirement System of Ohio
Last Eight Fiscal Years (1)

	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	ESC's Covered Payroll	Contributions as a Percentage of Covered Payroll
2013	$ 1,124,352	$ (1,124,352)	$ -	$ 8,123,931	13.84%
2014	1,179,584	(1,179,584)	-	8,510,707	13.86%
2015	1,189,497	(1,189,497)	-	9,025,015	13.18%
2016	1,299,903	(1,299,903)	-	9,285,021	14.00%
2017	1,519,832	(1,519,832)	-	10,855,943	14.00%
2018	1,942,885	(1,942,885)	-	14,391,741	13.50%
2019	1,867,012	(1,867,012)	-	13,829,719	13.50%
2020	2,198,856	(2,198,856)	-	15,706,114	14.00%

(1) The ESC elected not to present information prior to 2013. The ESC will continue to present information for years available until a full ten-year trend is compiled.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC Pension Contributions
State Teachers Retirement System of Ohio
Last Eight Fiscal Years (1)

	Contractually Required Contributions	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	ESC's Covered Payroll	Contributions as a Percentage of Covered Payroll
2013	$ 725,551	$ (725,551)	$ -	$ 5,581,162	13.00%
2014	808,417	(808,417)	-	6,218,592	13.00%
2015	954,347	(954,347)	-	6,816,764	14.00%
2016	986,668	(986,668)	-	7,047,629	14.00%
2017	1,124,494	(1,124,494)	-	8,032,100	14.00%
2018	1,230,258	(1,230,258)	-	8,787,557	14.00%
2019	1,242,307	(1,242,307)	-	8,873,621	14.00%
2020	1,246,790	(1,246,790)	-	8,905,643	14.00%

(1) The ESC elected not to present information prior to 2013. The ESC will continue to present information for years available until a full ten-year trend is compiled.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC's Proportionate Share of the Net OPEB Liability
School Employees Retirement System of Ohio
Last Four Fiscal Years (1) (2)

	ESC's Proportion of the Net OPEB Liability	ESC's Proportionate Share of the Net OPEB Liability	ESC's Covered Payroll	ESC's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2017	0.323637%	$ 9,224,851	$ 9,285,021	99.35%	11.49%
2018	0.350075%	9,395,086	10,855,943	86.54%	12.46%
2019	0.395779%	10,979,989	14,391,741	76.29%	13.57%
2020	0.399328%	10,042,249	13,829,719	72.61%	15.57%

(1) Information prior to 2017 is not available. The ESC will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the ESC's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumptions. In measurement year 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended June 30, 2015. Significant changes included a reduction in the rate of inflation from 3.25% to 3.00%, a reduction in the payroll growth assumption from 4.00% to 3.50%, a reduction in assumed real wage growth from 0.75% to 0.50%, an update in rates of withdrawal, retirement and disability, and transitioning to the following mortality tables: RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set back for both active male and female members; RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB (120% of male rates, and 110% of female rates) for service retired members and beneficiaries; and 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 among disabled members.

In measurement year 2018, medical trend rates have been adjusted to reflect premium decreases.

Change in benefit and funding terms. In measurement year 2018, SERS' funding policy allowed a 2.0% health care contribution rate to be allocated to the Health Care fund. The 2.0% is a combination of 0.5% employer contributions and 1.5% surcharge.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC's Proportionate Share of the Net OPEB Liability (Asset)
State Teachers Retirement System of Ohio
Last Four Fiscal Years (1) (2)

	ESC's Proportion of the Net OPEB Liability (Asset)	ESC's Proportionate Share of the Net OPEB Liability (Asset)	ESC's Covered Payroll	ESC's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)
2017	0.062300%	$ 3,331,837	$ 7,047,629	47.28%	37.30%
2018	0.068202%	2,660,984	8,032,100	33.13%	47.11%
2019	0.071593%	(1,150,464)	8,787,557	(13.09%)	176.00%
2020	0.070480%	(1,167,312)	8,873,621	(13.15%)	174.70%

(1) Information prior to 2017 is not available. The ESC will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of the ESC's measurement date, which is the prior fiscal year-end.

Notes to Schedule:

Change in assumption. For measurement year 2017, the discount rate was increased from 3.26% to 4.13% 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% to 7.45%. Valuation year per capita health care costs were updated, and the salary scale was modified. The percentage of future retirees electing each option was updated based on current data and the percentage of future disabled retirees and terminated vested participants electing health coverage were decreased. The assumed mortality, disability, retirement, withdrawal and future health care cost trend rates were modified along with the portion of rebated prescription drug costs.

For measurement year 2018, 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. Valuation year per capital health care costs were updated.

Change in benefit terms. For measurement year 2017, the subsidy multiplier for non-Medicare benefit recipient was reduced from 2.1% to 1.9% 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 2019.

For measurement year 2018, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9% 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.

For measurement year 2019, 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% 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 eliminationdate was postponed to January 1, 2021.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC's OPEB Contributions
School Employees Retirement System of Ohio
Last Four Fiscal Years (1)

	Contractually Required Contributions (2)	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	ESC's Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$ 120,959	$ (120,959)	$ -	$ 10,855,943	1.11%
2018	196,700	(196,700)	-	14,391,741	1.37%
2019	183,511	(183,511)	-	13,829,719	1.33%
2020	70,379	(70,379)	-	15,706,114	0.45%

(1) The ESC elected not to present information prior to 2017. The ESC will continue to present information for years available until a full ten-year trend is compiled.

(2) Includes Surcharge

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Required Supplementary Information
Schedule of ESC OPEB Contributions
State Teachers Retirement System of Ohio
Last Four Fiscal Years (1)

	Contractually Required Contributions (2)	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	ESC's Covered Payroll	Contributions as a Percentage of Covered Payroll
2017	$ -	$ -	$ -	$ 8,032,100	0.00%
2018	-	-	-	8,787,557	0.00%
2019	-	-	-	8,873,621	0.00%
2020	-	-	-	8,905,643	0.00%

(1) The ESC elected not to present information prior to 2017. The ESC will continue to present information for years available until a full ten-year trend is compiled.

(2) STRS allocated the entire 14% employer contribution rate toward pension benefits.

Supplementary Information

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Contractual services	$ 22,135,863	$ 21,839,936	$ 21,839,936	$ -
Earnings on investments	144,000	118,783	118,783	-
Intergovernmental	1,444,374	1,422,808	1,422,808	-
Other local revenues	2,291,982	2,076,631	2,076,631	-
Total revenues	26,016,219	25,458,158	25,458,158	-
Expenditures:				
Current:				
Instruction:				
Regular	5,009,317	5,002,210	5,002,210	-
Special education	5,075,229	4,628,528	4,628,528	-
Support services:				
Pupil	6,262,806	6,414,311	6,414,311	-
Instructional staff	616,832	658,103	658,103	-
Governing Board	19,410	16,675	16,675	-
Administration	2,571,164	2,203,450	2,203,450	-
Fiscal	747,495	636,424	636,424	-
Operation and maintenance of plant	1,451,249	1,265,219	1,265,219	-
Pupil transportation	118,799	120,056	120,056	-
Central	2,724,304	2,540,142	2,540,142	-
Non-instructional services	1,095,741	1,046,264	1,046,264	-
Debt Service	162,675	206,934	206,934	-
Total expenditures	25,855,021	24,738,316	24,738,316	-
Excess revenues over expenditures	161,198	719,842	719,842	-
Other financing sources (uses):				
Advances in	700,500	1,156,200	1,156,200	-
Advances out	-	(1,265,000)	(1,265,000)	-
Total other financing sources (uses):	700,500	(108,800)	(108,800)	-
Change in fund balance	861,698	611,042	611,042	$ -
Fund balance, beginning of year	7,800,876	7,800,876	7,800,876	
Prior year encumbrances appropriated	158,992	158,992	158,992	
Fund balance, end of year	$ 8,821,566	$ 8,570,910	$ 8,570,910	

See accompanying notes to supplementary information.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Federal Head Start Fund
Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Intergovernmental	$ 10,539,917	$ 10,061,254	$ 10,061,254	$ -
Expenditures:				
Current:				
Instruction:				
Special education	1,969,535	1,972,535	1,908,570	63,965
Support services:				
Pupil	3,487,551	3,466,856	3,294,759	172,097
Instructional staff	464,209	464,209	464,209	-
Administration	1,663,239	1,663,239	1,661,709	1,530
Fiscal	70,483	70,483	70,483	-
Operation and maintenance of plant	1,228,020	1,228,020	1,225,678	2,342
Central	18,126	18,126	18,126	-
Non-instructional services	1,577,457	1,577,457	1,577,457	-
Total expenditures	10,478,620	10,460,925	10,220,991	239,934
Excess (deficiency) of revenues over (under) expenditures	61,297	(399,671)	(159,737)	239,934
Other financing sources (uses):				
Advances in	-	151,000	151,000	-
Advances out	-	(302,000)	(302,000)	-
Total other financing sources (uses):	-	(151,000)	(151,000)	-
Change in fund balance	61,297	(550,671)	(310,737)	$ 239,934
Fund balance, beginning of year	200,713	200,713	200,713	
Prior year encumbrances appropriated	296,861	296,861	296,861	
Fund balance, end of year	$ 558,871	$ (53,097)	$ 186,837	

See accompanying notes to supplementary information.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund
Balance - Budget and Actual (Non-GAAP Budgetary Basis)
Miscellaneous Special Revenue Fund
Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues:				
Intergovernmental	$ 3,420,119	$ 2,533,354	$ 2,533,354	$ -
Other local revenues	2,517,112	2,089,805	2,089,805	-
Total revenues	5,937,231	4,623,159	4,623,159	-
Expenditures:				
Current:				
Instruction:				
Regular	61,358	61,358	53,331	8,027
Special education	553,643	576,472	241,709	334,763
Support services:				
Pupil	4,789,537	5,745,899	3,805,076	1,940,823
Administration	296,691	319,088	330,423	(11,335)
Operation and maintenance of plant	18	31,133	33,620	(2,487)
Central	97,305	171,055	113,108	57,947
Non-instructional services	7,795	7,795	74,367	(66,572)
Total expenditures	5,806,347	6,912,800	4,651,634	2,261,166
Excess (deficiency) of revenues over (under) expenditures	130,884	(2,289,641)	(28,475)	2,261,166
Other financing sources (uses):				
Transfers in	-	-	336	336
Advances in	-	-	432,000	432,000
Transfers out	-	(336)	(336)	-
Advances out	(228,500)	(228,500)	(444,500)	(216,000)
Total other financing sources (uses):	(228,500)	(228,836)	(12,500)	216,336
Change in fund balance	(97,616)	(2,518,477)	(40,975)	$ 2,477,502
Fund balance, beginning of year	781,555	781,555	781,555	
Prior year encumbrances appropriated	82,892	82,892	82,892	
Fund balance, end of year	$ 766,831	$ (1,654,030)	$ 823,472	

See accompanying notes to supplementary information.

Note A **Budgetary Basis of Accounting**

The ESC is no longer required under State statue to file budgetary information with the State Department of Education. However, the ESC's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the legal level of control. Appropriation amounts are as originally adopted, or as amended by the ESC through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the ESC during the current fiscal year. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as restricted or assigned fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	General	Federal Head Start	Miscellaneous Special Revenue
Net change in fund balance - GAAP Basis	$ 1,026,347	$ 1,051,021	$ 75,294
Increase / (decrease):			
Due to inclusion of Public School Support Fund	(19,371)	-	-
Due to revenues	(191,042)	(1,931,949)	1,634
Due to expenditures	(26,986)	870,295	(15,209)
Due to other sources (uses)	(108,800)	(151,000)	(12,500)
Due to encumbrances	(69,106)	(149,104)	(90,194)
Net change in fund balance - Budget Basis	$ 611,042	$ (310,737)	$ (40,975)

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Program Title	Pass-through Entity Number	Federal CFDA Number	Passed through to Subrecipients	Federal Revenues	Federal Expenditures
U.S. Department of Agriculture:					
(Passed through Ohio Department of Education)					
Child Care and Adult Care Food Program	2019	10.558	$	272,728	272,728
Child Care and Adult Care Food Program	2020	10.558		476,891	476,891
Total U.S. Department of Agriculture				749,619	749,619
U.S. Department of Health and Human Services:					
(Passed through Ohio Department of Mental Health and Addiction Services)					
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1900516	93.104	335,920	766,040	748,567
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	2000392	93.104	249,754	264,957	370,943
			585,674	1,030,997	1,119,510
Drug-Free Communities Support Program Grants	n/a	93.276		64,038	63,787
COVID-19 - Head Start	n/a	93.600		159,307	159,307
Head Start	n/a	93.600		9,684,465	9,671,329
				9,843,772	9,830,636
Money Follows the Person Rebalancing Demonstration	n/a	93.791		-	21,251
Substance Abuse and Mental Health Services Projects of Regional and National Significance	n/a	93.243		109,000	109,353
Total U.S. Department of Health and Human Services			585,674	11,047,807	11,144,537
U.S. Department of Education:					
(Passed through Ohio Department of Developmental Disabilities)					
Special Education - Grants for Infants and Families (Help Me Grow)	H181A170024	84.181		96,805	7,382
Special Education - Grants for Infants and Families (Help Me Grow)	H181A180024	84.181		193,831	260,220
				290,636	267,602
(Passed through Ohio Department of Education)					
English Language Acquisition State Grants	S365A180035	84.365		30,407	33,227
English Language Acquisition State Grants	S365A190035	84.365		18,541	7,534
				48,948	40,761
Title I Grants to Local Educational Agencies (Title I Delinquent)	S010A180035	84.010		58,079	32,454
Title I Grants to Local Educational Agencies (Title I Delinquent)	S010A190035	84.010		215,425	241,003
				273,504	273,457
Total U.S. Department of Education				613,088	581,820
Total Federal Awards			$ 585,674	12,410,514	12,475,976

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Butler County Educational Service Center (the “Center”) under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented 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, changes in net position, or cash flows of the Center.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C - MATCHING REQUIREMENTS

Certain federal programs require the Center contribute non-federal funds (matching funds) to support the federally-funded programs. The Center has complied with the matching requirements. The expenditures of non-federal matching funds is not included on the schedule.

CLARK SCHAEFER HACKETT
BUSINESS ADVISORS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Governing Board
Butler County Educational Service Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center ("Service Center") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements, and have issued our report thereon dated December 17, 2020, wherein we noted the Service Center adopted Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 17, 2020

CLARK SCHAEFER HACKETT
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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

INDEPENDENT AUDITORS' REPORT

To the Governing Board
Butler County Educational Service Center:

Report on Compliance for Each Major Federal Program

We have audited Butler County Educational Service Center's ("Service Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Service Center's major federal programs for the year ended June 30, 2020. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Service Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
December 17, 2020

Butler County Educational Service Center
Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	none

Identification of major programs:

CFDA 93.600 – Head Start
CFDA 93.104 – Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)

Dollar threshold to distinguish between Type A and Type B Programs:	$750,000
Auditee qualified as low-risk auditee?	yes

Section II - Financial Statement Findings
None

Section III – Federal Award Findings and Questioned Costs
None

Section IV – Schedule of Prior Year Findings
None

OHIO AUDITOR OF STATE
KEITH FABER

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

BUTLER 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 1/28/2021

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