



OHIO AUDITOR OF STATE  
**KEITH FABER**





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

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HAMILTON COUNTY  
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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Hamilton County Educational Service Center  
Hamilton County  
11083 Hamilton Avenue  
Cincinnati, Ohio 45231

To the Governing Body:

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

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

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

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

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

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

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

***Opinion***

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

***Emphasis of Matter***

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

***Other Matters***

*Required Supplementary Information*

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

*Supplementary and Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 11, 2021, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.



Keith Faber  
Auditor of State  
Columbus, Ohio  
March 11, 2021

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

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

**Financial Highlights**

Key financial highlights for 2020 are as follows:

- Net Position of governmental activities decreased \$4,490,854 which represents a 13% decrease from 2019.
- General revenues accounted for \$3,686,085 in revenue or 5% of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions accounted for \$65,840,847 or 95% of total revenues of \$69,526,932.
- The Center had \$74,017,786 in expenses related to governmental activities; \$65,840,847 of these expenses were offset by program specific charges for services, grants or contributions. General revenues of \$3,686,085 were also used to provide for these programs.

**Overview of the Financial Statements**

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

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

**Government-wide Financial Statements**

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

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

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

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

- **Governmental Activities** – All of the Center's programs and services are reported here including instruction, support services, operation of non-instructional services, and interest and fiscal charges.

**Fund Financial Statements**

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

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

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

**The Center as a Whole**

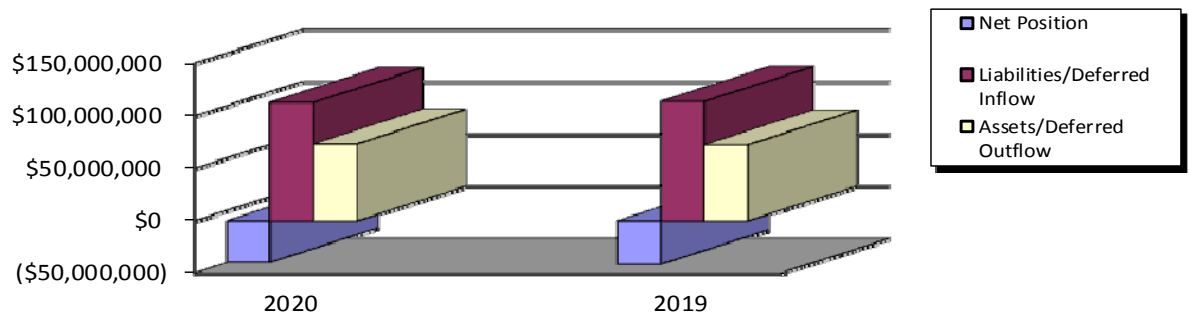
As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2020 compared to 2019:

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

**Table 1  
Net Position**

	Governmental Activities	
	2020	2019
Assets:		
Current and Other Assets	\$34,935,222	\$36,658,315
Capital Assets	11,607,635	3,974,118
Net OPEB Asset	4,435,755	5,549,684
<b>Total Assets</b>	<b>50,978,612</b>	<b>46,182,117</b>
Deferred Outflows of Resources:		
Pension	20,096,667	23,394,151
OPEB	2,356,546	1,868,461
<b>Total Deferred Outflows of Resources</b>	<b>22,453,213</b>	<b>25,262,612</b>
Liabilities:		
Other Liabilities	8,544,310	7,772,801
Long-Term Liabilities	93,532,811	87,455,061
<b>Total Liabilities</b>	<b>102,077,121</b>	<b>95,227,862</b>
Deferred Inflows of Resources:		
Pension	3,466,159	4,301,291
OPEB	7,348,063	6,884,240
<b>Total Deferred Inflows of Resources</b>	<b>10,814,222</b>	<b>11,185,531</b>
Net Position:		
Net Investment in Capital Assets	6,797,635	3,518,329
Restricted	3,481,100	1,275,021
Unrestricted	(49,738,253)	(39,762,014)
<b>Total Net Position</b>	<b>(\$39,459,518)</b>	<b>(\$34,968,664)</b>



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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2020, the Center's liabilities and deferred inflows exceeded assets and deferred outflows by \$39,459,518.

At year-end, capital assets represented 23% of total assets. Capital assets include land, buildings and improvements, construction in progress, and equipment. Net investment in capital assets at June 30, 2020, was \$6,797,635. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net position, \$3,481,100 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Current and other assets decreased from 2019 to 2020 mainly due to a decrease in cash and cash equivalents. Long-term liabilities increased mainly due an increase in the net pension liability.

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

**Table 2  
Changes in Net Position**

	Governmental Activities	
	2020	2019
Revenues:		
Program Revenues		
Charges for Services	\$50,463,423	\$45,940,531
Operating Grants, Contributions	15,377,424	10,436,806
General Revenues:		
Grants and Entitlements	3,050,808	3,009,216
Other	635,277	903,653
Total Revenues	<u>69,526,932</u>	<u>60,290,206</u>
Expenses:		
Instruction	9,370,333	7,518,219
Support Services:		
Pupil and Instructional Staff	33,886,370	24,830,113
School Administrative, General Administration, Fiscal and Business	9,137,319	7,312,983
Operations and Maintenance	448,082	380,555
Pupil Transportation	0	21,784
Central	1,782,607	1,466,548
Operation of Non-Instructional Services	19,181,130	14,603,342
Interest and Fiscal Charges	211,945	353,657
Total Expenses	<u>74,017,786</u>	<u>56,487,201</u>
Change in Net Position	(4,490,854)	3,803,005
Net Position - Beginning of Year	<u>(34,968,664)</u>	<u>(38,771,669)</u>
Net Position - End of Year	<u>(\$39,459,518)</u>	<u>(\$34,968,664)</u>

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

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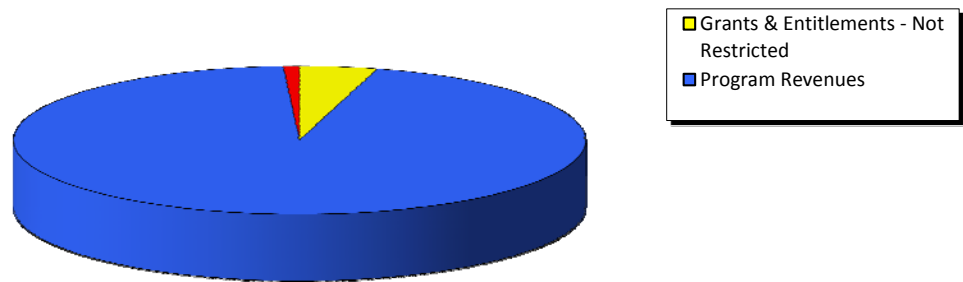
The Center’s revenues are mainly from three sources, charges for services, operating grants, and grants and entitlements. Charges for services revenues are generated by providing services to member districts. The Center and a district enter into an agreement specifying the type and amount of service for a period of time, generally not exceeding a school year. Operating grant revenues are awarded to the Center by various state and federal agencies. Grants and entitlements revenues are given directly to the Center and are calculated based on the average daily membership of the districts.

The Center’s revenues are demonstrated by the following graph:

**Governmental Activities  
Revenue Sources**

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	2020	Percentage
Grants & Entitlements - Not Restricted	\$3,050,808	4%
Program Revenues	65,840,847	95%
Other Revenues	635,277	1%
Total Revenue Sources	<u>\$69,526,932</u>	<u>100%</u>



Instruction comprises 13% of governmental program expenses. Support services expenses were 61% of governmental program expenses. All other expenses including interest expense and fiscal charges were 26%. Interest expense was attributable to the outstanding capital lease and borrowing for capital projects.

Grants and entitlements revenue increased slightly from 2019 mainly due to the increase of state funding the Center received in fiscal year 2020 compared to fiscal year 2019. Overall expenses for the current fiscal year increased when compared to 2019 primarily due to changes related to the net pension liability and other post employment benefits liability.

**Governmental Activities**

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements.

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

**Table 3  
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2020	2019	2020	2019
Instruction	\$9,370,333	\$7,518,219	(\$1,797,853)	\$287,440
Support Services:				
Pupil and Instructional Staff	33,886,370	24,830,113	(4,376,847)	(264,043)
School Administrative, General				
Administration, Fiscal and Business	9,137,319	7,312,983	(843,163)	1,007,507
Operations and Maintenance	448,082	380,555	(52,031)	19,522
Pupil Transportation	0	21,784	0	(181)
Central	1,782,607	1,466,548	(397,162)	(195,112)
Operation of Non-Instructional Services	19,181,130	14,603,342	(497,938)	(611,340)
Interest and Fiscal Charges	211,945	353,657	(211,945)	(353,657)
Total Expenses	<u>\$74,017,786</u>	<u>\$56,487,201</u>	<u>(\$8,176,939)</u>	<u>(\$109,864)</u>

**The Center's Major Funds**

The Center has three major governmental funds: the General Fund, Head Start Fund, and Capital Projects Fund. Assets of the General Fund comprised \$22,905,794 (62%), Head Start comprised \$4,389,018 (12%), and Capital Projects comprised \$6,410,586 (17%) of the total \$36,994,537 governmental fund assets.

**General Fund:** Fund balance at June 30, 2020 was \$13,658,915, including \$13,534,575 of unassigned balance. Fund balance decreased \$1,252,247 from 2019. The fund balance decreased mainly due to an increase in support services expenditures when compared to the prior year.

**Head Start Fund:** Fund balance at June 30, 2020 was \$352,572. The fund balance increased \$498,784 from 2019 to 2020. The primary reason for the increase in fund balance was mainly due to an increase in intergovernmental revenue.

**Capital Projects:** Fund balance at June 30, 2020 was \$5,788,830. The fund balance decreased \$5,463,865 from 2019 to 2020. The primary reason for the decrease in fund balance was due to an increase in capital outlay expenditures from the prior year in relation to the ongoing construction project.

**General Fund Budgeting Highlights**

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. During the course of the year, the Center revised the budget in an attempt to deal with unexpected changes in revenues and expenditures.

For the General Fund, budget final basis revenue was \$49,840,722 compared to the original budget estimates of \$48,830,644. Of the \$1,010,078 difference, most was due to underestimates for charges for

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

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services and intergovernmental revenues for fiscal year 2020.

For the General Fund, budget final basis expenditures were \$52,040,632, compared to the original budget estimates of \$52,708,558. Of the \$667,926 difference, most was due to overestimating instruction and support services expenditures for fiscal year 2020.

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of fiscal 2020, the Center had \$11,607,635 invested in land, construction in progress, buildings and improvements and equipment. Table 4 shows fiscal 2020 balances compared to 2019:

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

	Governmental Activities	
	2020	2019
Land	\$1,398,750	\$1,398,750
Construction in Progress	8,407,433	2,767,297
Buildings and Improvements	875,009	909,182
Equipment	926,443	474,455
Total Net Capital Assets	<u>\$11,607,635</u>	<u>\$5,549,684</u>

Overall, capital assets increased due to depreciation expense and disposals being less than current asset additions.

See Note 5 to the Basic Financial Statements for further details on the Center’s capital assets.

**Debt**

At June 30, 2020, the Center had \$4,810,000 in debt outstanding, \$255,000 due within one year.

Table 5 summarizes debt outstanding.

**Table 5  
Outstanding Debt, at Year-End**

	2020	2019
HCESC Building Capital Lease	\$4,810,000	\$5,000,000

See Notes 6 and 7 to the Basic Financial Statements for further details of the Center’s long-term liabilities.

**For the Future**

As the preceding shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Hamilton County, state foundation revenue and grants. Contracts with Hamilton

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

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County districts are expected to increase in future years due to additional service requests from districts. These contracts, along with the Center's cash balance will provide the Center with the necessary funds to meet its operating expenses in future years.

As of the time of this report, the Ohio Department of Education is researching a model for a regional delivery system and the implementation of such a system. This new Ohio Regional Delivery System will directly affect the Centers and the method to which they are funded. At this point, the Center is unable to determine what effect this legislation will have on future state funding and on its financial operations.

In May 2000, the Ohio Supreme Court again ruled the school funding system in Ohio is far too dependent on property taxes which are inherently not "equitable" nor "adequate." The court directed the Governor and the legislature to address the fundamental issues creating the inequities. Any change in the funding will indirectly affect the Center's since the districts are their main revenue stream. Currently, the Center is unable to determine the outcome of the Court's directive.

All of the Center's financial abilities will be needed to meet the challenges of the future. With careful planning and monitoring of the Center's finances, the Center's management is confident that the Center can continue to provide quality products and services to the districts in the future.

**Contacting the Center's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer/Chief Financial Officer at 11083 Hamilton Avenue, Cincinnati, Ohio 45231.



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

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$23,560,038
Restricted Cash and Investments	338,714
Receivables:	
Accounts	6,121,569
Interest	21,874
Intergovernmental	4,792,309
Prepays	93,874
Inventory	6,844
Nondepreciable Capital Assets	9,806,183
Depreciable Capital Assets, Net	1,801,452
Net OPEB Asset	4,435,755
<b>Total Assets</b>	<b>50,978,612</b>
Deferred Outflows of Resources:	
Pension	20,096,667
OPEB	2,356,546
<b>Total Deferred Outflows of Resources</b>	<b>22,453,213</b>
Liabilities:	
Accounts Payable	117,998
Accrued Wages and Benefits	7,787,180
Contracts Payable	283,042
Retainage Payable	338,714
Accrued Interest Payable	17,376
Long-Term Liabilities:	
Due Within One Year	670,149
Due In More Than One Year	
Net Pension Liability	76,975,082
Net OPEB Liability	7,022,673
Other Amounts	8,864,907
<b>Total Liabilities</b>	<b>102,077,121</b>
Deferred Inflows of Resources:	
OPEB	7,348,063
Pension	3,466,159
<b>Total Deferred Inflows of Resources</b>	<b>10,814,222</b>
Net Position:	
Net Investment in Capital Assets	6,797,635
Restricted for:	
Special Education	48,914
Other State Grants	51,390
Head Start	2,216,878
Other Federal Grants	212,829
Other Grants	951,089
Unrestricted	(49,738,253)
<b>Total Net Position</b>	<b>(\$39,459,518)</b>

See accompanying notes to the basic financial statements.

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

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
<b>Instruction:</b>				
Special	\$9,353,759	\$7,514,937	\$45,769	(\$1,793,053)
Vocational	16,574	11,774	0	(4,800)
<b>Support Services:</b>				
Pupil	17,547,564	14,086,602	0	(3,460,962)
Instructional Staff	16,338,806	12,243,940	3,178,981	(915,885)
General Administration	57,792	38,770	0	(19,022)
School Administration	6,672,689	5,623,720	366,736	(682,233)
Fiscal	1,689,808	1,001,718	577,787	(110,303)
Business	717,030	682,838	2,587	(31,605)
Operations and Maintenance	448,082	261,144	134,907	(52,031)
Central	1,782,607	1,385,445	0	(397,162)
Operation of Non-Instructional Services	19,181,130	7,612,535	11,070,657	(497,938)
Interest and Fiscal Charges	211,945	0	0	(211,945)
<b>Totals</b>	<b>\$74,017,786</b>	<b>\$50,463,423</b>	<b>\$15,377,424</b>	<b>(8,176,939)</b>

General Revenues:

Grants and Entitlements, Not Restricted	3,050,808
Unrestricted Contributions	1,000
Investment Earnings	425,747
Other Revenues	208,530

Total General Revenues 3,686,085

Change in Net Position (4,490,854)

Net Position - Beginning of Year (34,968,664)

Net Position - End of Year (\$39,459,518)

See accompanying notes to the basic financial statements.

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

	General	Head Start	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in Pooled Cash and Investment:	\$14,615,314	\$870,254	\$6,071,872	\$2,002,598	\$23,560,038
Restricted Cash and Investments:	0	0	338,714	0	338,714
<b>Receivables:</b>					
Accounts	6,121,569	0	0	0	6,121,569
Interest	21,874	0	0	0	21,874
Intergovernmental	0	3,509,637	0	1,282,672	4,792,309
Interfund	2,059,315	0	0	0	2,059,315
Prepays	80,878	9,127	0	3,869	93,874
Inventory	6,844	0	0	0	6,844
<b>Total Assets</b>	<b>22,905,794</b>	<b>4,389,018</b>	<b>6,410,586</b>	<b>3,289,139</b>	<b>36,994,537</b>
<b>Liabilities:</b>					
Accounts Payable	68,374	47,824	0	1,800	117,998
Accrued Wages and Benefits	6,709,134	757,083	0	320,963	7,787,180
Compensated Absences	234,830	36,616	0	0	271,446
Contracts Payable	0	0	283,042	0	283,042
Retainage Payable	0	0	338,714	0	338,714
Interfund Payable	0	1,024,175	0	1,035,140	2,059,315
<b>Total Liabilities</b>	<b>7,012,338</b>	<b>1,865,698</b>	<b>621,756</b>	<b>1,357,903</b>	<b>10,857,695</b>
<b>Deferred Inflows of Resources:</b>					
Grants	0	2,170,748	0	325,862	2,496,610
Unavailable Revenue	2,215,400	0	0	0	2,215,400
Investment Earnings	19,141	0	0	0	19,141
<b>Total Deferred Inflows of Resources</b>	<b>2,234,541</b>	<b>2,170,748</b>	<b>0</b>	<b>325,862</b>	<b>4,731,151</b>
<b>Fund Balances:</b>					
Nonspendable	87,722	9,127	0	3,869	100,718
Restricted	0	343,445	0	1,230,587	1,574,032
Assigned	36,618	0	5,788,830	387,561	6,213,009
Unassigned	13,534,575	0	0	(16,643)	13,517,932
<b>Total Fund Balances</b>	<b>13,658,915</b>	<b>352,572</b>	<b>5,788,830</b>	<b>1,605,374</b>	<b>21,405,691</b>
<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$22,905,794</b>	<b>\$4,389,018</b>	<b>\$6,410,586</b>	<b>\$3,289,139</b>	<b>\$36,994,537</b>

See accompanying notes to the basic financial statements

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

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Total Governmental Fund Balances		\$21,405,691
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		11,607,635
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Accounts Receivable	2,215,400	
Interest	19,141	
Intergovernmental	<u>2,496,610</u>	
		4,731,151
In the statement of net position interest payable is accrued when incurred; whereas, in the governmental funds interest is reported as a liability only when it will require the use of current financial resources.		
		(17,376)
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(4,453,610)
Deferred outflows and inflows or resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	20,096,667	
Deferred inflows of resources related to pensions	(3,466,159)	
Deferred outflows of resources related to OPEB	2,356,546	
Deferred inflows of resources related to OPEB	<u>(7,348,063)</u>	
Deferred outflows of resources related to pensions		11,638,991
Long-term liabilities and net OPEB assets are not available to pay for current period expenditures and are not due and payable in the current period and, therefore, are not reported in the funds.		
Net OPEB Asset	4,435,755	
Net Pension Liability	(76,975,082)	
Net OPEB Liability	(7,022,673)	
Other Amounts	<u>(4,810,000)</u>	
		<u>(84,372,000)</u>
Net Position of Governmental Activities		<u>(\$39,459,518)</u>

See accompanying notes to the basic financial statements.

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

	General	Head Start	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Tuition and Fees	\$737,926	\$0	\$0	\$0	\$737,926
Investment Earnings	439,898	0	190	0	440,088
Intergovernmental	3,050,808	10,098,644	0	4,298,247	17,447,699
Charges for Services	0	0	0	413,445	413,445
Contract Services	47,474,733	0	0	0	47,474,733
Other Revenues	175,289	0	0	34,240	209,529
<b>Total Revenues</b>	<b>51,878,654</b>	<b>10,098,644</b>	<b>190</b>	<b>4,745,932</b>	<b>66,723,420</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Special	8,175,762	0	0	39,745	8,215,507
Vocational	12,664	0	0	0	12,664
<b>Support Services:</b>					
Pupil	15,521,007	0	0	0	15,521,007
Instructional Staff	11,046,006	0	0	3,341,532	14,387,538
General Administration	41,821	0	0	0	41,821
School Administration	5,293,780	295,640	0	262,697	5,852,117
Fiscal	1,087,260	353,095	0	124,045	1,564,400
Business	681,912	0	0	2,379	684,291
Operations and Maintenance	284,781	0	0	130,000	414,781
Central	1,520,969	0	0	0	1,520,969
Operation of Non-Instructional Services	8,325,597	8,951,125	0	44,617	17,321,339
Capital Outlay	736,710	0	5,464,055	0	6,200,765
<b>Debt Service:</b>					
Principal Retirement	190,000	0	0	0	190,000
Interest and Fiscal Charges	212,632	0	0	0	212,632
<b>Total Expenditures</b>	<b>53,130,901</b>	<b>9,599,860</b>	<b>5,464,055</b>	<b>3,945,015</b>	<b>72,139,831</b>
<b>Net Change in Fund Balance</b>	<b>(1,252,247)</b>	<b>498,784</b>	<b>(5,463,865)</b>	<b>800,917</b>	<b>(5,416,411)</b>
<b>Fund Balance - Beginning of Year</b>	<b>14,911,162</b>	<b>(146,212)</b>	<b>11,252,695</b>	<b>804,457</b>	<b>26,822,102</b>
<b>Fund Balance - End of Year</b>	<b>\$13,658,915</b>	<b>\$352,572</b>	<b>\$5,788,830</b>	<b>\$1,605,374</b>	<b>\$21,405,691</b>

See accompanying notes to the basic financial statements.

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

Net Change in Fund Balance - Total Governmental Funds (\$5,416,411)

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

Governmental funds report capital asset additions as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of the difference between capital asset additions and depreciation in the current period.

Capital assets used in governmental activities	6,274,174	
Depreciation Expense	<u>(155,831)</u>	
		6,118,343

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. The amount of the proceeds must be removed and the gain or loss on the disposal of capital assets must be recognized. This is the amount of the difference between the proceeds and the gain or loss. (60,392)

Governmental funds report Center pension and OPEB contributions as expenditures. However in the statement of activities, the cost of pension and OPEB benefits earned net of employee contributions are reported as pension and OPEB expense.

District pension contributions	6,139,976	
Cost of benefits earned net of employee contributions - Pension	<u>(14,917,800)</u>	
District OPEB contributions	46,931	
Cost of benefits earned net of employee contributions - OPEB	<u>901,243</u>	
		(7,829,650)

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

Accounts	1,837,320	
Interest	<u>(14,341)</u>	
Intergovernmental	<u>980,533</u>	
		2,803,512

Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 190,000

In the statement of activities interest expense is accrued when incurred; whereas, in governmental funds an interest expenditure is reported when due. 687

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

Compensated Absences	<u>(296,943)</u>	
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Change in Net Position of Governmental Activities (\$4,490,854)

See accompanying notes to the basic financial statements.

Hamilton County Educational Service Center  
Statement of Assets and Liabilities  
Fiduciary Fund  
June 30, 2020

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	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Investments	\$3,528,568
Receivables:	
Accounts	<u>772,405</u>
Total Assets	<u><u>4,300,973</u></u>
Liabilities:	
Accounts Payable	1,527,332
Other Liabilities	<u>2,773,641</u>
Total Liabilities	<u><u>\$4,300,973</u></u>

See accompanying notes to the basic financial statements.

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

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**Note 1 - Description of the Center**

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The Hamilton County Educational Service Center (the "Center") serves the territories contained within the territorial limits of the local school districts that are not otherwise classified as city or exempted village school districts in Hamilton County, Ohio. The local districts consist of Finneytown whose territories consist of Springfield Township and a portion of the City of Cincinnati; Forest Hills consisting of Anderson Township including the Village of Newtown; Northwest consisting of all or parts of Colerain, Green and Springfield Townships, and portions of the Cities of Forest Park and North College Hill, and as well, a small portion of Fairfield Township in Butler County; Oak Hills which consists of all or parts of Delhi and Green Townships and a portion of the City of Cincinnati; Southwest which consists of Crosby, Harrison and Whitewater Townships including the City of Harrison, and as well, a small portion of Morgan Township in Butler county; Three Rivers consisting of Miami Township including the Villages of Addyston, Cleves and North Bend; and, Lockland consisting of the Villages of Arlington Heights and Lockland.

The Center's Governing Board is comprised of five members who are resident electors of the Member School District. At the time of election or appointment, every effort is made to broadly represent the electorate of the school system. Historically, five of the seven local districts on a rotational basis have been represented on the Board. Frequently the Board communicates with members of the local-district boards to learn of their wishes regarding development of policy, services that are consistent with trends, and program developments related to the vocational joint venture for which the five board members serve as representative delegates. The Board has consistently been a participating member of the Ohio School Boards Association to which several members provide leadership.

In addition to the seven local districts in Hamilton County, city districts, namely, Cincinnati, Deer Park, Winton Woods, Loveland, Madeira, Mariemont, Mt. Healthy, North College Hill, Norwood, Princeton, Reading Community, St. Bernard-Elmwood Place, Sycamore Community, Wyoming, Mason and the Exempted Village District of Indian Hill as well as the Great Oaks Career Campuses have one or another types of cooperative service agreements with the Center.

The Office of the Board is regularly referred to as the Center which is housed in a separate, modern facility in a complex known as Civic Center North. The Center serves as the central office for the Hamilton County Educational Service Center Superintendent of Schools and has staff of approximately 700 certificated and non-certificated support employees.

**Reporting Entity**

For financial reporting purposes the Center's financial statements include all funds of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. Potential component units were also considered for inclusion in the financial report. Component units are legally separate organizations for which the elected officials of a primary government are financially accountable. The Center would consider an organization to be a component unit if:

1. The Center appointed a voting majority of the organization's governing body and (a) was able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial burdens on the Center; or
2. The organization was fiscally dependent upon the Center; or

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

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3. The nature of the relationship between the Center and the organization was such that the exclusion from the financial reporting entity would render the financial statements of the Center misleading.

The Center included no component units in the financial report.

The Center provides fiscal agent service to the Hamilton Clermont Cooperative Information Technology Center (HCC) formerly known as HCCA, Unified Purchasing Cooperative, and the Center for Collaborative Solutions, a regional council of governments as disclosed in Note 15. HCC is one of 23 regional Information Technology Centers (ITC) established by the State of Ohio. HCC is a member of the Ohio Educational Computer Network. HCC provides data and Internet services for public and non-public schools in Greater Cincinnati Metropolitan Area. This includes collection and distribution of data for financial, student and media services. HCC also provides technical and networking service to affiliate schools.

The Site Director and his staff manage the day-to-day affairs of HCC. A Board of Directors, composed of member school's superintendents, approves the long term path for the site, as determined by the Site Director and an Executive Committee composed of five superintendents and two treasurers from member schools.

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

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

**Measurement Focus**

**Government-wide Financial Statements**

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

The government-wide statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Center are included on the statement of net position. Fiduciary Funds are not included in government-wide statements.

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

### **Fund Financial Statements**

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

### **Fund Accounting**

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are grouped into the categories governmental and fiduciary.

### **Governmental Funds**

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 between governmental fund assets and deferred outflows, and liabilities and deferred inflows is reported as fund balance. The following are the Center'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 for any purpose provided it is expended or transferred according to the general laws of Ohio.

Head Start Fund – The Head Start fund is used to account for all financial resources that are associated with the head start program.

Capital Projects Fund – The Fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

### **Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Center's only fiduciary funds are Agency funds (HCC and unified purchasing co-op) which accounts for assets and liabilities generated by the data center and the unified purchasing co-op.

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

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**Basis of Accounting**

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

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

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

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, included 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 year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year end: contract services, grants and interest.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Center, deferred outflows of resources includes pension and other post employment benefits. These amounts are reported on the government-wide statement of net position. The deferred outflows of resources related to pension and OPEB plans are explained in Notes 8 and 9.

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

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

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resources in the period the amounts become available. Grants and investment earnings have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows related to pension and OPEB are reported on the governmental-wide statement of net position. See Notes 8 and 9 for more pension and OPEB related information.

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. However, debt service expenditures, as well as any expenditures related to compensated absences, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**Equity in Pooled Cash and Investments**

To improve cash management, cash received by the Center is pooled. Monies for all funds are maintained in this pool. Interest in the pool is presented as “Equity in Pooled Cash and Investments” on the financial statements.

Investments are reported at fair value which is based on quoted market prices.

Following Ohio statutes, the Center has, by resolution, specified the funds to receive an allocation of interest earnings.

For presentation on the financial statements, all investments and deposits are reported as “Equity in Pooled Cash and Investments”.

During the fiscal year, the Center held donated stock which is held at fair value. The fair value is based on quoted market prices.

**Inventory**

On fund financial statements, inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis and is expended/expensed when used. Inventory in governmental funds consists of expendable supplies held for consumption.

**Prepaid Items**

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

**Capital Assets**

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements.

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

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All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition value as of the date received. The Center maintains a capitalization threshold of \$2,000. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	10 - 50 years
Equipment	5 - 20 years

**Compensated Absences**

The Center reports compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time, when earned, for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The entire compensated absence liability is reported on the government-wide financial statements.

Compensated absences are recognized in governmental fund financial statements, when they are due. The related liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid.

The Center's policies regarding compensated absences are determined by the state laws and/or negotiated agreements. In summary, the policies are as follows:

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u> (261 day employees only)	<u>Non-Certificated</u> (261 day employees only)
Earned Monthly	Not Eligible	10-20 days depending on length of contract	10-20 days for each service year depending on length of service
Maximum Accumulation	N/A	3 days paid at end of each school year at current Daily Rate	3 days paid at end of each school year at current Daily Rate
Vested	N/A	As Earned	As Earned
Term	N/A	100% of Daily Rate of Accum.Vac.	100% of Daily Rate of Accum. Vac.

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

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<b><u>Sick Leave</u></b>	<b><u>Certified</u></b>	<b><u>Administrators</u></b>	<b><u>Non-Certificated</u></b>
Earned Monthly	1 1/4 days per month of employment (15 days per year)	1 1/4 days per month of employment (15 days per year)	1 1/4days per/month of employment (15 days per year)
Maximum Accumulation	250	250	250
Vested	As Earned	As Earned	As Earned
<b><u>Vacation</u></b>	<b><u>Certified</u></b>	<b><u>Administrators</u></b>	<b><u>Non-Certificated</u></b>
Termination Entitlement At Retirement	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.	25% of Accum. unused sick leave max 62.5 days X current daily rate.

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

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

**Net Position**

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation less outstanding debt used to acquire capital assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$3,481,000 in restricted net position, none was restricted by enabling legislation.

**Interfund Activity**

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

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

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

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

**Fund Balance**

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

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

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

Committed – resources that are constrained for specific purposes that are internally imposed by the government at its highest level of decision making authority, the Governing Board. Formal action by the Board of Education is needed to commit or rescind resources.

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

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

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

**Estimates**

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

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

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The Center maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Equity in Pooled Cash and Investments."



**Hamilton County Educational Service Center**  
**Notes to the Basic Financial Statements**  
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State statute requires the classification of monies held by the Center into three categories:

Active Monies - Those monies required to be kept in a "cash" or "near cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand.

Inactive Monies – Those monies not required for use within the current two year period of designated depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designated depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.
4. Bonds and other obligations of the State of Ohio, and with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met.
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts.
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
7. The State Treasurer's investment pool (STAR Ohio).
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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

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

**Deposits**

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2020, \$13,255,122 of the Center's bank balance of \$13,505,122 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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

**Investments**

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

	Value	Fair Value Hierarchy	Weighted Average Maturity (Years)
Stocks*	\$115,265	Level 1	0.00
Money Market Funds	70,892	N/A	0.00
Federal Home Loan Bank	633,621	Level 2	2.79
Federal Farm Credit Bank	1,491,795	Level 2	0.37
Federal Home Loan Mortgage	1,950,105	Level 2	2.34
Commercial Paper	1,762,282	Level 2	0.49
Federal National Mortgage Association	400,943	Level 2	2.33
Negotiable CDs	6,695,323	Level 2	2.19
U.S. Treasury Notes	1,201,690	Level 1	0.51
	<u>\$14,321,916</u>		
Portfolio Weighted Average Maturity			1.92

\*The amount of \$115,265 was donated stock by a private individual.

**Hamilton County Educational Service Center**  
**Notes to the Basic Financial Statements**  
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The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. The above table identifies the Center's recurring fair value measurements as of June 30, 2020. All investments of the Center are valued using quoted market prices.

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

Credit Risk – It is the Center's policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have the highest credit quality rating issued by nationally recognized statistical rating organizations. The Center's investments in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank and Federal National Mortgage Association were rated AA+ by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service. U.S. Treasury Notes, Money Markets, and Negotiable CD's are not rated.

Concentration of Credit Risk – The Center places no limit on the amount it may invest in any one issuer. 1% of the Center's investments at fiscal year end were in Stock, less than 1% in Money Market Funds, 4% in Federal Home Loan Bank, 14% in Federal Home Loan Mortgage Corporation, 3% in Federal National Mortgage Association, 10% in Federal Farm Credit Bank, 12% in Commercial Paper, 47% in Negotiable CDs, and 8% in U.S. Treasury Notes.

Custodial Credit Risk is the risk that in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the Center's securities are either insured and registered in the name of the Center or at least registered in the name of the Center.

**Note 4 – Receivables**

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Receivables at June 30, 2020, consisted of accounts, interest, intergovernmental grants, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

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

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**Note 5 - Capital Assets**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
<b><i>Capital Assets, Not Being Depreciated</i></b>				
Land	\$1,398,750	\$0	\$0	\$1,398,750
Construction in Progress	2,767,297	6,209,018	568,882	8,407,433
<b><i>Capital Assets, Being Depreciated</i></b>				
Buildings and Improvements	1,258,493	0	0	1,258,493
Equipment	<u>2,175,668</u>	<u>634,038</u>	<u>87,770</u>	<u>2,721,936</u>
Totals at Historical Cost	<u>7,600,208</u>	<u>6,843,056</u>	<u>656,652</u>	<u>13,786,612</u>
Less Accumulated Depreciation:				
Buildings and Improvements	349,311	34,173	0	383,484
Equipment	<u>1,701,213</u>	<u>121,658</u>	<u>27,378</u>	<u>1,795,493</u>
Total Accumulated Depreciation	<u>2,050,524</u>	<u>155,831</u>	<u>27,378</u>	<u>2,178,977</u>
Governmental Activities Capital Assets, Net	<u>\$5,549,684</u>	<u>\$6,687,225</u>	<u>\$629,274</u>	<u>\$11,607,635</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:		
Special		\$40,933
Support Services:		
Instructional Staff		31,477
General Administration		12,936
School Administration		14,652
Business		1,371
Operations and Maintenance		24,630
Operation of Non-Instructional Services		<u>29,832</u>
Total Depreciation Expense		<u>\$155,831</u>

**Hamilton County Educational Service Center  
Notes to the Basic Financial Statements  
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**Note 6 - Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
<b>Governmental Activities:</b>					
Capital Lease Payable	\$5,000,000	\$0	\$190,000	\$4,810,000	\$255,000
Compensated Absences	4,310,503	659,596	245,043	4,725,056	415,149
Subtotal Capital Leases and Other Amounts	9,310,503	659,596	435,043	9,535,056	670,149
Net Pension Liability:					
STRS	54,379,269	4,847,702	0	59,226,971	0
SERS	16,280,341	1,467,770	0	17,748,111	0
Subtotal Net Pension Liability	70,659,610	6,315,472	0	76,975,082	0
Net OPEB Liability:					
STRS	0	0	0	0 (a)	0
SERS	7,484,948	0	462,275	7,022,673	0
Subtotal Net OPEB Liability	7,484,948	0	462,275	7,022,673	0
Total Long-Term Obligations	<u>\$87,455,061</u>	<u>\$6,975,068</u>	<u>\$897,318</u>	<u>\$93,532,811</u>	<u>\$670,149</u>

(a) OPEB for STRS has a Net OPEB asset in the amount of \$4,435,755 as of June 30, 2020.

Compensated Absences will be paid from the fund from which the person is paid. The lease will be paid from the general fund.

There is no repayment schedule for the net pension liability and net OPEB liability; however, employer pension and OPEB contributions are made from the fund benefitting from their service.

**Note 7 - Capital Leases**

The Center entered into a capital lease in fiscal year 2019 for construction of a building addition, locking in the rate at 4.335%. The following is a schedule of the future long-term minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2020.

Fiscal Year Ending June 30,	Long-Term Debt
2021	\$457,987
2022	461,607
2023	459,685
2024	457,331
2025	459,435
2026-2030	2,287,698
2031-2034	1,829,340
Total Minimum Lease Payments	6,413,083
Less: Amount Representing Interest	(1,603,083)
Present Value of Minimum Lease Payments	<u>\$4,810,000</u>

**Note 8 - Defined Benefit Pension Plans**

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

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

Pensions and OPEB are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions/OPEB are provided to an employee on a deferred payment basis as part of the total compensation package offered by an employer for employee services each financial period.

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

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

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

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

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

**Plan Description**

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

Age and service requirements for retirement are as follows:

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

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

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

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

**Funding Policy**

Plan members are required to contribute 10 percent of their annual covered salary and the employer is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The contractually required contribution to SERS was \$1,582,526 for fiscal year 2020. Of this amount \$0 is reported as accrued wages and benefits. Of the total contribution to SERS, \$1,249,879 represents the ESC share (78.98 percent) and \$332,647 represents the HCC share (21.02 percent).

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

**Plan Description**

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

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

**Hamilton County Educational Service Center**  
**Notes to the Basic Financial Statements**  
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The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of-living increases are not affected by this change. Effective Aug. 1, 2017 through July 1, 2019, any member could retire with reduced benefits who had (1) five years of service credit and age 60; (2) 27 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Effective Aug. 1, 2019–July 1, 2021, any member may retire with reduced benefits who has (1) five years of service credit and age 60; (2) 28 years of service credit and age 55; or (3) 30 years of service credit regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

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

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

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

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

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



**Hamilton County Educational Service Center  
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**Funding Policy**

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

The contractually required contribution to STRS was \$4,890,097 for fiscal year 2020. Of this amount \$731,859 is reported as accrued wages and benefits.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$17,748,111	\$59,226,971	\$76,975,082
Proportion of the Net Pension Liability:			
Current Measurement Date	0.37558070%	0.26782085%	
Prior Measurement Date	<u>0.36812260%</u>	<u>0.24731615%</u>	
Change in Proportionate Share	0.00745810%	0.02050470%	
Pension Expense	\$3,325,226	\$11,592,574	\$14,917,800

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b><u>Deferred Outflows of Resources</u></b>			
Differences between expected and actual experience	\$450,054	\$482,206	\$932,260
Changes of assumptions	0	6,957,351	6,957,351
Changes in employer proportionate share of net pension liability	387,331	5,679,749	6,067,080
Contributions subsequent to the measurement date	<u>1,249,879</u>	<u>4,890,097</u>	<u>6,139,976</u>
Total Deferred Outflows of Resources	<u>\$2,087,264</u>	<u>\$18,009,403</u>	<u>\$20,096,667</u>
<b><u>Deferred Inflows of Resources</u></b>			
Differences between expected and actual experience	\$0	\$256,382	\$256,382
Net difference between projected and actual earnings on pension plan investments	227,819	2,894,693	3,122,512
Changes in employer proportionate share of net pension liability	<u>87,265</u>	<u>0</u>	<u>87,265</u>
Total Deferred Inflows of Resources	<u>\$315,084</u>	<u>\$3,151,075</u>	<u>\$3,466,159</u>

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\$6,139,976 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	SERS	STRS	Total
2021	\$738,234	\$5,488,234	\$6,226,468
2022	(329,974)	2,512,572	2,182,598
2023	(15,160)	834,712	819,552
2024	129,201	1,132,713	1,261,914
Total	<u>\$522,301</u>	<u>\$9,968,231</u>	<u>\$10,490,532</u>

**Actuarial Assumptions - SERS**

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

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

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

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

Inflation	3.00%
Future Salary Increases, including inflation	3.50% - 18.20%
COLA or Ad Hoc COLA	2.50%
Investment Rate of Return	7.50% net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

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members were based upon the RP-2000 Disabled Mortality Table, 90 percent for male rates and 100 percent for female rates, set back five years is used for the period after disability retirement. The most recent experience study was completed for the five year period ended June 30, 2015.

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

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

**Discount Rate**

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

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$24,871,448	\$17,748,111	\$11,774,301

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**Actuarial Assumptions - STRS**

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

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

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

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

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

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

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

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of

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current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

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

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

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$86,553,621	\$59,226,971	\$36,093,563

**Note 9 - Defined Benefit OPEB Plans**

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

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

**Health Care Plan Description**

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

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

**Hamilton County Educational Service Center  
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**Funding Policy**

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the employer's surcharge obligation was \$59,421.

The surcharge, added to any allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The contractually required contribution to SERS was \$46,931 for fiscal year 2020. Of this amount \$0 is reported as accrued wages and benefits.

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

**Plan Description**

The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

**Funding Policy**

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

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

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability (asset) was based on the employer'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:

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**Notes to the Basic Financial Statements**  
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	SERS	STRS	Total
Proportionate Share of the Net OPEB Liability	\$7,022,673	\$0	\$7,022,673
Proportionate Share of the Net OPEB (Asset)	0	(4,435,755)	(4,435,755)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.35357670%	0.26782085%	
Prior Measurement Date	0.34938980%	0.24731615%	
Change in Proportionate Share	0.00418690%	0.02050470%	
OPEB Expense	\$294,693	(\$1,195,936)	(\$901,243)

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

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$103,087	\$402,135	\$505,222
Changes of assumptions	512,926	93,239	606,165
Net difference between projected and actual earnings on OPEB plan investments	16,857	0	16,857
Changes in employer proportionate share of net OPEB liability	396,653	784,718	1,181,371
Contributions subsequent to the measurement date	46,931	0	46,931
Total Deferred Outflows of Resources	<u>\$1,076,454</u>	<u>\$1,280,092</u>	<u>\$2,356,546</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$1,542,833	\$225,675	\$1,768,508
Changes of assumptions	393,530	4,863,291	5,256,821
Net difference between projected and actual earnings on OPEB plan investments	0	278,595	278,595
Changes in employer proportionate share of net OPEB liability	44,139	0	44,139
Total Deferred Inflows of Resources	<u>\$1,980,502</u>	<u>\$5,367,561</u>	<u>\$7,348,063</u>

\$46,931 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year	SERS	STRS	Total
Ending June 30:			
2021	(\$361,173)	(\$896,735)	(\$1,257,908)
2022	(121,200)	(896,735)	(1,017,935)
2023	(116,251)	(785,078)	(901,329)
2024	(117,057)	(745,908)	(862,965)
2025	(152,393)	(795,454)	(947,847)
Thereafter	(82,905)	32,441	(50,464)
Total	<u>(\$950,979)</u>	<u>(\$4,087,469)</u>	<u>(\$5,038,448)</u>

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Notes to the Basic Financial Statements  
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**Actuarial Assumptions - SERS**

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

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

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

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

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

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

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-



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normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

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

**Discount Rate**

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

**Sensitivity of the Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates**

The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

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	1% Decrease (2.22%)	Current Discount Rate (3.22%)	1% Increase (4.22%)
Proportionate share of the net OPEB liability	\$8,524,193	\$7,022,673	\$5,828,789
	1% Decrease (6.00% decreasing to 3.75%)	Current Trend Rate (7.00% decreasing to 4.75%)	1% Increase (8.00% decreasing to 5.75%)
Proportionate share of the net OPEB liability	\$8,874,945	\$7,022,673	\$8,874,945

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

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

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

**Actuarial Assumptions - STRS**

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

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

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

For healthy retirees the mortality rates are based on the RP-2014 Annuitant Mortality Table with 50 percent of rates through age 69, 70 percent of rates between ages 70 and 79, 90 percent of rates between ages 80 and 84, and 100 percent of rates thereafter, projected forward generationally using

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

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

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

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

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

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

**Discount Rate**

The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019 and June 30, 2018. The projection of cash flows used to determine the discount rate assumed STRS continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2019 and June 30, 2018.

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

The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

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	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Proportionate share of the net OPEB (asset)	(\$3,785,034)	(\$4,435,755)	(\$4,982,860)

	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$5,029,943)	(\$4,435,755)	(\$3,708,020)

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

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

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

**Note 10 - Contingent Liabilities**

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**Grants**

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center as of June 30, 2020.

**Litigation**

The Center's attorney estimates that all other potential claims against the Center not covered by insurance resulting from all other litigation would not materially affect the financial statements of the Center.

**Note 11 - Risk Management**

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The Center is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The Center carries insurance coverage with the following companies.

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<u>COVERAGE</u>	<u>COMPANY</u>
Automobile	The Argonaut Insurance Company
Property	The Argonaut Insurance Company
General Liability	The Argonaut Insurance Company

Limits and deductible amounts for the above policies vary accordingly.

<u>COVERAGE</u>	<u>LIMITS</u>	<u>DEDUCTIBLE</u>
Automobile	\$1,000,000 each occurrence	\$500 collision
Property	\$1,000,000 each occurrence	\$500 each loss
General Liability	\$1,000,000 each occurrence \$3,000,000 general aggregate	

The Center pays the State of Ohio Bureau of Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

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

**Note 12 - State Funding**

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The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from both State and local resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all of the school districts served by the Center by \$26. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

**Note 13 – Accountability**

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The following individual funds had a deficit in fund balance at year end:

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<u>Fund</u>	<u>Deficit</u>
Idea Preschool Grant	\$1,021
Food Services	15,371

The deficits in fund balances were primarily due to accruals in GAAP. The general fund is liable for any deficit in these funds and will provide operating transfers when cash is required not when accruals occur.

**Note 14 - Interfund Transactions**

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Interfund transactions at June 30, 2020, consisted of the following interfund receivables and interfund payables:

	Interfund	
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$2,059,315	\$0
Head Start Fund	0	1,024,175
Other Governmental Funds	0	1,035,140
Total All Funds	<u>\$2,059,315</u>	<u>\$2,059,315</u>

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

**Note 15 - Jointly Governed Organizations**

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Hamilton Clermont Cooperative Information Technology Center

The Hamilton Clermont Cooperative Information Technology Center (HCC) is a governmental jointly governed organization 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 governments of these schools supports HCC and shares in a percentage of equity based on the resources provided. HCC is governed by a board of directors consisting of the superintendents of the member school districts. The degree of control exercised by any participating School District is limited to its representation on the Board. The Board consists of one representative from each of the participating school districts.

Unified Purchasing Cooperative

The Unified Purchasing Cooperative is comprised of over 50 public school district's and nearly 90 non-public schools in Brown, Butler, Clermont, Hamilton (OH); Boone, Campbell, Kenton (KY); Dearborn, Ohio, Ripley (IN) counties; 4 Educational Service Centers, 2 Head Start Programs, 2 MRDD's and the Diocese of Covington.

By aggregating the requirements of its members, each member's purchasing power increases and as a result Unified Purchasing Cooperative is able to obtain the best prices for quality products and services.

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Center for Collaborative Solutions, A Regional Council of Governments

The Center for Collaborative Solutions, A Regional Council of Governments (the “COG”), is a body Corporate and Politic established pursuant to Ohio Revised Code Chapter 167, by agreement of its members. The COG is a collaborative between Hamilton County Educational Service Center and Clermont County Educational Service Center. The COG is currently providing services for school districts and other entities in Hamilton County and Clermont County, principally providing substitute teachers and substitute classified personnel. Hamilton County Educational Service Center acts as a fiscal officer for the COG.

The governing authority of The Center for Collaborative Solutions (COG) is the COG Board, which is comprised of two superintendents, two board members and one treasurer. All members are from The Hamilton County ESC and Clermont County ESC. The Officer positions of the COG Board are President, Vice-President and Secretary. The ESCs rotate those positions as determined by the COG Board. All other officers serve until his/her successor is appointed.

SWOOSH Consortium

Southwest Ohio Organization of School Health (SWOOSH) is a health and wellness consortium for school districts and government agencies that come together to provide stability and quality access to health care and benefits to all eligible members. SWOOSH will do this by leveraging economies of scale, commonality of choices and driving wellness and health management by collaborative efforts of all participating agencies.

The objective of the SWOOSH consortium is to maximize benefits and / or reduce costs of medical, prescription drug, vision, dental, life and / or other group insurance coverages. While the consortium serves short term savings needs, in the long term it will promote rate stability and allow the districts to move to a healthier place using wellness.

Working together to purchase group insurance allows the districts to pool their members. With more members on the plan, the consortium can leverage the larger scale of the entire group and work toward obtaining the most competitive rates while securing unique wellness offers and additional investments to better manage long term costs. For example, the SWOOSH consortium has a dedicated wellness nurse, wellness dollars for each district and is creating district health scorecards to help improve the overall health and wellness of all employees.

**Note 16 - Claims Servicing Pool**

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The Center participates in Greater Cincinnati Insurance Consortium (GCIC) Self-Insurance Program, a shared risk pool, comprised of other area school districts. Each member pays an administrative fee to the pool. Each school district has a representative on the assembly (usually the superintendent or designee).

**Note 17 –Fund Balances**

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

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

Fund Balances	General	Head Start	Capital Project	Other Governmental Funds	Total
<b>Nonspendable:</b>					
Prepays	\$80,878	\$9,127	\$0	\$3,869	\$93,874
Inventory	6,844	0	0	0	6,844
<b>Total Nonspendable</b>	<b>87,722</b>	<b>9,127</b>	<b>0</b>	<b>3,869</b>	<b>100,718</b>
<b>Restricted for:</b>					
Head Start	0	343,445	0	0	343,445
Capital Projects	0	0	0	0	0
Miscellaneous State Grants	0	0	0	63,115	63,115
Other Grants	0	0	0	975,156	975,156
Title VI-B Special Education	0	0	0	16,885	16,885
Miscellaneous Federal Grants	0	0	0	142,989	142,989
Improving Teacher Quality	0	0	0	27,876	27,876
Refugee School Impact Grant	0	0	0	4,566	4,566
<b>Total Restricted</b>	<b>0</b>	<b>343,445</b>	<b>0</b>	<b>1,230,587</b>	<b>1,574,032</b>
<b>Assigned to:</b>					
Permanent Improvements	0	0	0	387,561	387,561
Capital Projects	0	0	5,788,830	0	5,788,830
Encumbrances	36,618	0	0	0	36,618
<b>Total Assigned</b>	<b>36,618</b>	<b>0</b>	<b>5,788,830</b>	<b>387,561</b>	<b>6,213,009</b>
<b>Unassigned (Deficit)</b>	<b>13,534,575</b>	<b>0</b>	<b>0</b>	<b>(16,643)</b>	<b>13,517,932</b>
<b>Total Fund Balance</b>	<b>\$13,658,915</b>	<b>\$352,572</b>	<b>\$5,788,830</b>	<b>\$1,605,374</b>	<b>\$21,405,691</b>

**Note 18 – Implementation of New Accounting Principles**

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

**Note 19 – 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 may impact subsequent periods of the Center. The Center’s investment portfolio could incur a significant decline in fair value. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Center’s future operating costs, revenues, the impact of the investments of the pension and other employee benefit plan in which the Center participates and any recovery from emergency funding, either federal or state, cannot be estimated.



# **REQUIRED SUPPLEMENTARY INFORMATION**

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total Pension Liability
2020	0.37558070%	\$17,748,111	\$7,683,741	230.98%	70.85%
2019	0.36812260%	16,280,341	7,134,052	228.21%	71.36%
2018	0.34639030%	16,060,139	7,460,564	215.27%	69.50%
2017	0.35531050%	20,843,368	8,794,593	237.00%	62.98%
2016	0.34155250%	15,532,986	9,393,361	165.36%	69.16%
2015	0.29964300%	12,080,856	8,794,986	137.36%	71.70%
2014	0.29964300%	14,199,431	14,529,747	97.73%	65.52%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2020	\$1,249,879	(\$1,249,879)	\$0	\$8,927,707	14.00%
2019	1,037,305	(1,037,305)	0	7,683,741	13.50%
2018	963,097	(963,097)	0	7,134,052	13.50%
2017	1,044,479	(1,044,479)	0	7,460,564	14.00%
2016	1,231,243	(1,231,243)	0	8,794,593	14.00%
2015	1,238,045	(1,238,045)	0	9,393,361	13.18%
2014	1,218,985	(1,218,985)	0	8,794,986	13.86%
2013	2,010,917	(2,010,917)	0	14,529,747	13.84%
2012	1,908,012	(1,908,012)	0	14,185,963	13.45%
2011	1,977,120	(1,977,120)	0	15,728,878	12.57%

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total Pension Liability
2020	0.26782085%	\$59,226,971	\$33,231,800	178.22%	77.40%
2019	0.24731615%	54,379,269	29,615,243	183.62%	77.30%
2018	0.23480236%	55,777,804	27,319,557	204.17%	75.30%
2017	0.22515006%	75,364,512	24,876,314	302.96%	66.80%
2016	0.22475533%	62,115,799	24,771,250	250.76%	72.10%
2015	0.20353901%	49,507,731	22,395,762	221.06%	74.70%
2014	0.20353901%	58,814,466	38,195,800	153.98%	69.30%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2020	\$4,890,097	(\$4,890,097)	\$0	\$34,929,264	14.00%
2019	4,652,452	(4,652,452)	0	33,231,800	14.00%
2018	4,146,134	(4,146,134)	0	29,615,243	14.00%
2017	3,824,738	(3,824,738)	0	27,319,557	14.00%
2016	3,482,684	(3,482,684)	0	24,876,314	14.00%
2015	3,467,975	(3,467,975)	0	24,771,250	14.00%
2014	2,911,449	(2,911,449)	0	22,395,762	13.00%
2013	4,965,454	(4,965,454)	0	38,195,800	13.00%
2012	4,631,272	(4,631,272)	0	35,625,169	13.00%
2011	4,786,028	(4,786,028)	0	36,815,600	13.00%

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB Liability	Center's Proportionate Share of the Net OPEB Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total OPEB Liability
2020	0.35357670%	\$7,022,673	\$7,683,741	91.40%	15.57%
2019	0.34938980%	7,484,948	7,134,052	104.92%	13.57%
2018	0.32981780%	6,868,720	7,460,564	92.07%	12.46%
2017	0.33951784%	9,677,514	8,794,593	110.04%	11.49%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution (2)	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2020	\$46,931	(\$46,931)	\$0	\$8,927,707	0.53%
2019	91,724	(91,724)	0	7,683,741	1.19%
2018	127,820	(127,820)	0	7,134,052	1.79%
2017	79,439	(79,439)	0	7,460,564	1.06%
2016	83,622	(83,622)	0	8,794,593	0.95%

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

(2) Includes surcharge.

See accompanying notes to the required supplementary information



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

Year	Center's Proportion of the Net OPEB (Asset)/Liability	Center's Proportionate Share of the Net OPEB (Asset)/Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total OPEB (Asset)/Liability
2020	0.26782085%	(\$4,435,755)	\$33,231,800	(13.35%)	174.74%
2019	0.24731615%	(3,974,118)	29,615,243	(13.42%)	176.00%
2018	0.23480236%	9,161,122	27,319,557	33.53%	47.10%
2017	0.22515006%	12,041,084	24,876,314	48.40%	37.30%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2020	\$0	\$0	\$0	\$34,929,264	0.00%
2019	0	0	0	33,231,800	0.00%
2018	0	0	0	29,615,243	0.00%
2017	0	0	0	27,319,557	0.00%
2016	0	0	0	24,876,314	0.00%

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

See accompanying notes to the required supplementary information

Hamilton County Educational Service Center  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2020

	General Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Tuition and Fees	\$722,971	\$737,926	\$737,926	\$0
Investment Earnings	304,922	311,229	311,229	0
Intergovernmental	2,988,980	3,050,808	3,050,808	0
Charges for Services	44,642,034	45,565,470	45,565,470	0
Other Revenues	171,737	175,289	175,289	0
<b>Total Revenues</b>	<b>48,830,644</b>	<b>49,840,722</b>	<b>49,840,722</b>	<b>0</b>
Expenditures:				
Current:				
Instruction:				
Special	8,158,073	8,054,694	8,048,835	5,859
Vocational	12,836	12,673	12,664	9
Support Services:				
Pupil	15,271,611	15,078,088	15,067,121	10,967
Instructional Staff	11,039,900	10,900,002	10,892,074	7,928
General Administration	42,295	41,759	41,729	30
School Administration	5,165,787	5,100,326	5,096,616	3,710
Fiscal	1,074,993	1,061,371	1,060,599	772
Business	741,850	732,449	731,916	533
Operations and Maintenance	283,697	280,102	279,898	204
Central	1,502,585	1,483,544	1,482,465	1,079
Operation of Non-Instructional Services	8,251,760	8,147,193	8,141,267	5,926
Capital Outlay	1,163,171	1,148,431	1,147,596	835
<b>Total Expenditures</b>	<b>52,708,558</b>	<b>52,040,632</b>	<b>52,002,780</b>	<b>37,852</b>
Excess of Revenues Over (Under) Expenditures	(3,877,914)	(2,199,910)	(2,162,058)	37,852
Other Financing Sources (Uses):				
Advances In	1,780,468	1,817,298	1,817,298	0
Advances (Out)	(3,332,868)	(3,290,633)	(3,288,240)	2,393
<b>Total Other Financing Sources (Uses)</b>	<b>(1,552,400)</b>	<b>(1,473,335)</b>	<b>(1,470,942)</b>	<b>2,393</b>
<b>Net Change in Fund Balance</b>	<b>(5,430,314)</b>	<b>(3,673,245)</b>	<b>(3,633,000)</b>	<b>40,245</b>
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	17,741,076	17,741,076	17,741,076	0
<b>Fund Balance End of Year</b>	<b>\$12,310,762</b>	<b>\$14,067,831</b>	<b>\$14,108,076</b>	<b>\$40,245</b>

See accompanying notes to the supplementary information.

Hamilton County Educational Service Center  
Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budget and Actual (Non-GAAP Budgetary Basis)  
For the Fiscal Year Ended June 30, 2020

	Head Start Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Intergovernmental	\$7,747,929	\$10,031,637	\$10,031,637	\$0
Total Revenues	7,747,929	10,031,637	10,031,637	0
Expenditures:				
Current:				
Support Services:				
School Administration	129,438	317,860	293,498	24,362
Fiscal	155,719	382,397	353,089	29,308
Operation of Non-Instructional Services	3,886,770	9,544,678	8,813,140	731,538
Total Expenditures	4,171,927	10,244,935	9,459,727	785,208
Excess of Revenues Over (Under) Expenditures	3,576,002	(213,298)	571,910	785,208
Other Financing Sources (Uses):				
Advances In	791,021	1,024,175	1,024,175	0
Advances (Out)	(451,873)	(1,109,658)	(1,024,610)	85,048
Total Other Financing Sources (Uses)	339,148	(85,483)	(435)	85,048
Net Change in Fund Balance	3,915,150	(298,781)	571,475	870,256
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	298,782	298,782	298,782	0
Fund Balance End of Year	\$4,213,932	\$1	\$870,257	\$870,256

See accompanying notes to the supplementary information.

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

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**Note 1 – Budgetary Process**

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The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Center’s Board approves a budget for governmental funds on or before the start of the new fiscal year, which includes estimated resources and expenditures.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Center’s Treasurer. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the final amended certificate of estimated resources issued during the fiscal year 2020.

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law 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) 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 as follows:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as assigned to a fund balance for governmental fund types and expendable trust funds (GAAP basis).
4. Advances in and advances out are operating transactions (budget basis) as opposed to balance sheet transactions.

The following table summarizes the adjustments necessary to reconcile the GAAP basis to the budgetary basis for the General Fund and Head Start Fund:

	General	Head Start
GAAP Basis	(\$1,252,247)	\$498,784
Revenue Accruals	(2,037,932)	(67,007)
Expenditure Accruals	1,168,372	1,010,384
Advances In	1,817,298	1,024,175
Advances Out	(3,288,240)	(1,024,610)
Encumbrances	(40,251)	(870,251)
Budget Basis	(\$3,633,000)	\$571,475

**Note 2 - Net Pension Liability**

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**School Employees Retirement System (SERS)**

**Changes in Benefit Terms:**

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

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

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

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

**Changes in Assumptions:**

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

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

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

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

**State Teachers Retirement System (STRS)**

**Changes in Benefit Terms:**

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

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

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

**Changes in Assumptions:**

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

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

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

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

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

**Note 3 - Net OPEB (Asset)/Liability**

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**School Employees Retirement System (SERS)**

**Changes in Benefit Terms:**

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

**Changes in Assumptions:**

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

- (1) Discount Rate:

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

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

Prior Measurement Date	3.70%
Measurement Date	3.22%

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

- (4) Discount Rate:

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

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

Prior Measurement Date	3.63%
Measurement Date	3.70%

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

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

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

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

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

**State Teachers Retirement System (STRS)**

**Changes in Benefit Terms:**

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

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

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



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

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

**Changes in Assumptions:**

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

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

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

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

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**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

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

<b>FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity Identifying Number</b>	<b>Total Federal Expenditures</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<i>Passed Through Ohio Department of Education</i>			
National School Lunch Program Equipment	10.579	192OH811N8103	2,379
Child Nutrition Cluster			
Child and Adult Care Food Program- Lunch/Snack	10.555	N/A	249,369
Child and Adult Care Food Program- Breakfast	10.553	N/A	72,121
Total Child Nutrition Cluster			<u>321,490</u>
Total U.S. Department of Agriculture			<u><b>323,869</b></u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<i>Passed Through Ohio Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010	S01A190035	125,341
ESC State Trainers	84.367	S367A190034	737
English Language Acquisition Grants	84.365	S365A190035 & S365A180035	76,768
Striving Readers	84.371	S371C170019	56,805
Special Education Cluster			
Special Education - Grants to the States	84.027	H027A190111	2,463,445
Special Education - Preschool Grants	84.173	H173A190119	98,133
Total Special Education Cluster			<u>2,561,578</u>
State Personnel Development Grant	84.323	H323A170026	8,190
School Climate Transformation	84.184	S184F140016	23,790
Total U.S. Department of Education			<u><b>2,853,209</b></u>
<b>U.S. DEPARTMENT OF Health &amp; Human Services</b>			
<i>Direct Program</i>			
Head Start	93.600	05CH011254	9,131,525
<i>Passed Through Ohio Department of Job &amp; Family Services</i>			
Refugee and Entrant Assistance - State/Replacement Designee Administered Programs	93.566	1901OHRSOC	41,080
Total U.S. Department of Health & Human Services			<u><b>9,172,605</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><b>\$12,349,683</b></u>

**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

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

**NOTE A – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Hamilton County Educational Service Center (the Center) under programs of the federal government for the year ended June 30, 2020. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position or changes in net position of the Center.

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

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

**NOTE C – INDIRECT COST RATE**

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

**NOTE D - MATCHING REQUIREMENTS**

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



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

Hamilton County Educational Service Center  
Hamilton County  
11083 Hamilton Avenue  
Cincinnati, Ohio 45231

To the Governing Body:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hamilton County Educational Service Center, Hamilton County, Ohio (the Center), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 11, 2021. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Center.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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



Keith Faber  
Auditor of State  
Columbus, Ohio  
March 11, 2021

# OHIO AUDITOR OF STATE KEITH FABER



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

Hamilton County Educational Service Center  
Hamilton County  
11083 Hamilton Avenue  
Cincinnati, Ohio 45231

To the Governing Body:

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Keith Faber  
Auditor of State  
Columbus, Ohio  
March 11, 2021



**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER  
HAMILTON COUNTY**

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

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

<b>(d)(1)(i)</b>	<b>Type of Financial Statement Opinion</b>	Unmodified
<b>(d)(1)(ii)</b>	<b>Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(ii)</b>	<b>Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iii)</b>	<b>Was there any reported material noncompliance at the financial statement level (GAGAS)?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any material weaknesses in internal control reported for major federal programs?</b>	No
<b>(d)(1)(iv)</b>	<b>Were there any significant deficiencies in internal control reported for major federal programs?</b>	No
<b>(d)(1)(v)</b>	<b>Type of Major Programs' Compliance Opinion</b>	Unmodified
<b>(d)(1)(vi)</b>	<b>Are there any reportable findings under 2 CFR § 200.516(a)?</b>	No
<b>(d)(1)(vii)</b>	<b>Major Programs (list):</b>	CFDA 84.027 & 84.173 Special Education Cluster
<b>(d)(1)(viii)</b>	<b>Dollar Threshold: Type A/B Programs</b>	Type A: > \$ 750,000 Type B: all others
<b>(d)(1)(ix)</b>	<b>Low Risk Auditee under 2 CFR § 200.520?</b>	Yes

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

None.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None.



# OHIO AUDITOR OF STATE KEITH FABER



**HAMILTON COUNTY EDUCATIONAL SERVICE CENTER**

**HAMILTON COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 3/25/2021**

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

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