



OHIO AUDITOR OF STATE  
**KEITH FABER**





**LICKING COUNTY EDUCATIONAL SERVICE CENTER  
LICKING COUNTY  
JUNE 30, 2020 AND 2019**

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# OHIO AUDITOR OF STATE KEITH FABER



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## INDEPENDENT AUDITOR'S REPORT

Licking County Educational Service Center  
Licking County  
145 North Quentin Road  
Newark, Ohio 43055

To the Board of Education:

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

We have audited the accompanying cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking County Educational Service Center, Licking County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for 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 Educational Service Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Educational Service Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2020 and 2019, and the respective changes in cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

**Accounting Basis**

Ohio Administrative Code § 117-2-03(B) requires the Educational Service Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

**Emphasis of Matter**

As discussed in Note 16 to the financial statements, during 2020, the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities*. We did not modify our opinion regarding this matter.

As discussed in Note 17 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. We did not modify our opinion regarding this matter.

**Other Matters**

*Other Information*

We applied no procedures to management's discussion & analysis as listed in the table of contents. Accordingly, we express no opinion or any other assurance on them.

**Other Reporting Required by Government Auditing Standards**

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



Keith Faber  
Auditor of State  
Columbus, Ohio

February 4, 2021

## **Licking County Educational Service Center, Ohio**

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2020*

*Unaudited*

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

### **Financial Highlights**

Key financial highlights for fiscal year 2020 are as follows:

- Net position of governmental activities increased \$478,219.
- The Educational Service Center had \$12,034,681 in disbursements; \$11,717,179 of these disbursements were offset by program specific charges for services and operating grants and contributions. General receipts were \$795,721.
- At the end of the current fiscal year, the Educational Service Center's governmental funds reported receipts in the amount of \$12,512,900 and disbursements in the amount of \$12,034,681. The ending fund balance was \$3,099,457 which is an increase of \$478,219 from the prior fiscal year.

### **Using this Annual Financial Report**

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

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

### **Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Educational Service Center's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind that limitations resulting from the use of the cash basis of accounting.

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

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***Reporting the Educational Service Center as a Whole***

**Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis**

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for the Educational Service Center, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2020?” The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis answer this question. These statements report the Educational Service Center’s net position and changes in that position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis, all of the Educational Service Center’s activities are reported as governmental including instruction and support services.

***Reporting the Educational Service Center’s Most Significant Funds***

***Fund Financial Statements***

The analysis of the Educational Service Center’s major fund begins on page 10. Fund financial reports provide detailed information about the Educational Service Center’s major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center’s most significant funds. The Educational Service Center’s major governmental fund is the General Fund.

***Governmental Funds*** All of the Educational Service Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using a cash basis. The governmental fund statements provide a detailed short-term view of the Educational Service Center’s general governmental 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 Educational Service Center as a Whole**

The Educational Service Center has chosen to report on an Other Comprehensive Basis of Accounting in a format similar to that required by Governmental Accounting Statement No. 34.

Recall that the Statement of Net Position – Cash Basis provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center’s net position for 2020 compared to 2019.



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

**Table 1 - Net Position - Cash Basis**

	Governmental Activities		
	2020	2019	Change
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$3,099,457	\$2,620,249	\$479,208
Cash and Cash Equivalents in Segregated Accounts	0	989	(989)
<b>Total Assets</b>	<u>3,099,457</u>	<u>2,621,238</u>	<u>478,219</u>
<b>Net Position</b>			
Restricted	130,891	136,958	(6,067)
Unrestricted	2,968,566	2,484,280	484,286
<b>Total Net Position</b>	<u>\$3,099,457</u>	<u>\$2,621,238</u>	<u>\$478,219</u>

Net position in the amount of \$130,891, or 4 percent, is restricted as to how the funds can be spent. The remaining balance, \$2,968,566 or 96 percent, represents unrestricted net position and is to be used to meet ongoing obligations. The increase in equity in pooled cash and cash equivalents and net position was the result of an increase in receipts in the area of charges for services due to the Education Service Center increasing rates charged to clients and due to an increase in services provided to local school districts compared to prior fiscal years.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2020, and comparisons to fiscal year ended June 30, 2019.

**Table 2 - Changes in Net Position - Cash Basis**

	Governmental Activities		
	2020	2019	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$10,611,377	\$10,061,210	\$550,167
Operating Grants and Contributions	1,105,802	1,221,800	(115,998)
Total Program Receipts	<u>11,717,179</u>	<u>11,283,010</u>	<u>434,169</u>
General Receipts:			
Grants and Entitlements	667,089	654,192	12,897
Investment Earnings	40,679	35,689	4,990
Miscellaneous	87,953	46,654	41,299
Total General Receipts	<u>795,721</u>	<u>736,535</u>	<u>59,186</u>
<b>Total Receipts</b>	<u>12,512,900</u>	<u>12,019,545</u>	<u>493,355</u>
<b>Program Disbursements</b>			
Instruction:			
Regular	1,956	2,654	(698)
Intergovernmental	12,839	15,537	(2,698)
Special	5,606,591	4,750,265	856,326
Intergovernmental	37,295	49,016	(11,721)
Support Services:			
Pupils	3,512,117	2,855,491	656,626
Instructional Staff	72,357	165,431	(93,074)
Intergovernmental	393,881	386,875	7,006
Board of Education	14,189	11,888	2,301
Administration	1,994,862	1,556,797	438,065
Intergovernmental	63,089	61,936	1,153
Fiscal	202,312	216,433	(14,121)
Operation and Maintenance of Plant	97,700	77,044	20,656
Central	19,720	9,584	10,136
Extracurricular Activities	5,773	0	5,773
<b>Total Disbursements</b>	<u>12,034,681</u>	<u>10,158,951</u>	<u>1,875,730</u>
<i>Change in Net Position</i>	478,219	1,860,594	(1,382,375)
Net Position Beginning of Year	2,621,238	760,644	1,860,594
<b>Net Position End of Year</b>	<u>\$3,099,457</u>	<u>\$2,621,238</u>	<u>\$478,219</u>

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

The Educational Service Center relies heavily upon special education programs and services provided to local school districts. As a result, charges for services receipts are 85 percent of total receipts. The increase in net position is the result of an increase in receipts due to an increase in rates charged to the local school districts and an increase in services provided to local school districts.

Disbursements showed an increase from fiscal year 2019 to fiscal year 2020 due to an increase in services provided to local school districts and the addition of Tri-Valley Local School District as a client in fiscal year 2020. Special instruction programs comprise approximately 47 percent of total governmental program disbursements while support services comprise approximately 53 percent of total governmental program disbursements. Of the support services disbursements, approximately 55 percent is for pupils, 7 percent for instructional staff and instructional staff intergovernmental, 32 percent for administration and administration intergovernmental, 3 percent for fiscal, and 3 percent for the remaining disbursements.

The Statement of Activities – Cash Basis shows the cost of program services and the charges for services and grants and contributions, offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted entitlements.

**Table 3 - Governmental Activities - Cash Basis**

	<u>2020</u> Total Cost of Services	<u>2020</u> Net Cost of Services	<u>2019</u> Total Cost of Services	<u>2019</u> Net Cost of Services
<b>Program Disbursements</b>				
Instruction:				
Regular	\$1,956	(\$346)	\$2,654	(\$3,729)
Intergovernmental	12,839	747	15,537	147
Special	5,606,591	(1,453,425)	4,750,265	(1,636,441)
Intergovernmental	37,295	2,283	49,016	1,551
Support Services:				
Pupils	3,512,117	1,185,955	2,855,491	432,119
Instructional Staff	72,357	(13,508)	165,431	(8,737)
Intergovernmental	393,881	10,692	386,875	27,116
Board of Education	14,189	14,189	11,888	11,888
Administration	1,994,862	471,952	1,556,797	10,657
Intergovernmental	63,089	1,705	61,936	4,368
Fiscal	202,312	67,286	216,433	31,320
Operation and Maintenance of Plant	97,700	23,279	77,044	10,062
Central	19,720	920	9,584	(4,380)
Extracurricular Activities	5,773	5,773	0	0
<b>Totals</b>	<u>\$12,034,681</u>	<u>\$317,502</u>	<u>\$10,158,951</u>	<u>(\$1,124,059)</u>

The prior schedule clearly shows that the majority of the Educational Service Center's disbursements are funded through the program receipts. Most of the fiscal year 2020 governmental activities performed by the Educational Service Center were supported through program revenues such as charges for services, grants, and contributions. During fiscal year 2020, there was an increase in rates charged and services provided to the local school districts and the addition of Tri-Valley Local School District. Grants and entitlements, interest earnings, and miscellaneous revenues also contributed to the increase in net position for fiscal year 2020.

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

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**The Educational Service Center's Major Fund**

The Educational Service Center's major fund, the General Fund, is accounted for using the cash basis of accounting. The General Fund had total receipts of \$11,396,546, disbursements of \$10,895,232, and other financing source (use) of (\$17,028) which resulted in an increase in fund balance of \$484,286. Receipts increased by \$585,529, disbursements increased by \$1,948,333, and other financing source (use) increased by \$13,868. The increase in receipts is primarily reflected in the area of charges for services in the amount of \$567,628. The increase in charges for services is the result of the Educational Service Center increasing rates charged to the local school districts, increases in services provided to local school districts, and the addition of Tri-Valley Local School District as a client in fiscal year 2020.

***Budgeting Highlights***

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

**Debt Administration**

***Debt***

At June 30, 2020, the Educational Service Center had \$55,173 in capital leases outstanding. Principal payments in the amount of \$13,351 were made during fiscal year 2020. See Note 9 for more detailed information of the Educational Service Center's debt.

***Economic Factors***

The Licking County Educational Service Center's net position increased by \$478,219 during fiscal year 2020. As the preceding information reflects, the Educational Service Center relies heavily on the special education services that are provided to local school districts. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from these services. The financial positions of the local school districts and their willingness to continue to contract for special education services with the Educational Service Center will have a direct impact on the increase or decrease in receipts of the Educational Service Center.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, districts, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Julio Valladares, Treasurer at the Licking County Educational Service Center, 145 Quentin Road, Newark, Ohio 43055. You may also E-mail the treasurer at [jcvalladares@laca.org](mailto:jcvalladares@laca.org).

**Licking County Educational Service Center, Ohio**

*Statement of Net Position - Cash Basis*

*June 30, 2020*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$3,099,457</u></u>
<b>Net Position</b>	
Restricted for Public Preschool	\$92,827
Restricted for Advisory Services	38,064
Unrestricted	<u>2,968,566</u>
<i>Total Net Position</i>	<u><u>\$3,099,457</u></u>

See accompanying notes to the basic financial statements

**Licking County Educational Service Center, Ohio**

*Statement of Activities - Cash Basis*

*For the Fiscal Year Ended June 30, 2020*

	Cash	Program Cash Receipts		Net (Disbursements)
	Disbursements	Charges for	Operating Grants	Receipts and
		Services	and Contributions	Changes in
				Net Position
				Governmental
				Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$1,956	\$436	\$1,866	\$346
Intergovernmental	12,839	0	12,092	(747)
Special	5,606,591	6,603,335	456,681	1,453,425
Intergovernmental	37,295	0	35,012	(2,283)
Support Services:				
Pupils	3,512,117	2,326,162	0	(1,185,955)
Instructional Staff	72,357	58,810	27,055	13,508
Intergovernmental	393,881	0	383,189	(10,692)
Board of Education	14,189	0	0	(14,189)
Administration	1,994,862	1,426,743	96,167	(471,952)
Intergovernmental	63,089	0	61,384	(1,705)
Fiscal	202,312	135,026	0	(67,286)
Operation and Maintenance of Plant	97,700	43,865	30,556	(23,279)
Central	19,720	17,000	1,800	(920)
Extracurricular Activities	5,773	0	0	(5,773)
<b>Totals</b>	<u>\$12,034,681</u>	<u>\$10,611,377</u>	<u>\$1,105,802</u>	<u>(\$317,502)</u>

**General Receipts**

Grants and Entitlements not Restricted to Specific Programs	667,089
Interest	40,679
Miscellaneous	87,953
<b>Total General Receipts</b>	<u>795,721</u>
<b>Change in Net Position</b>	478,219
Net Position Beginning of Year	<u>2,621,238</u>
<b>Net Position End of Year</b>	<u><u>\$3,099,457</u></u>

See accompanying notes to the basic financial statements

**Licking County Educational Service Center, Ohio**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2020*

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	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,968,566	\$130,891	\$3,099,457
Total Assets	\$2,968,566	\$130,891	\$3,099,457
<b>Fund Balances</b>			
Restricted	\$0	\$130,891	\$130,891
Committed	53,756	0	53,756
Assigned	93,448	0	93,448
Unassigned	2,821,362	0	2,821,362
Total Fund Balances	\$2,968,566	\$130,891	\$3,099,457

See accompanying notes to the basic financial statements

**Licking County Educational Service Center, Ohio**  
*Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2020*

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$667,089	\$1,090,988	\$1,758,077
Interest	40,679	0	40,679
Charges for Services	10,519,152	23,500	10,542,652
Tuition and Fees	68,725	0	68,725
Contributions and Donations	12,948	1,866	14,814
Miscellaneous	87,953	0	87,953
<b>Total Receipts</b>	<b>11,396,546</b>	<b>1,116,354</b>	<b>12,512,900</b>
<b>Disbursements</b>			
Current:			
Instruction:			
Regular	0	1,956	1,956
Special	5,154,233	452,358	5,606,591
Support Services:			
Pupils	3,512,117	0	3,512,117
Instructional Staff	34,550	37,807	72,357
Board of Education	14,189	0	14,189
Administration	1,897,445	97,417	1,994,862
Fiscal	202,312	0	202,312
Operation and Maintenance of Plant	66,295	31,405	97,700
Central	8,318	11,402	19,720
Extracurricular Activities	5,773	0	5,773
Intergovernmental	0	507,104	507,104
<b>Total Disbursements</b>	<b>10,895,232</b>	<b>1,139,449</b>	<b>12,034,681</b>
Excess of Revenues Over (Under) Expenditures	501,314	(23,095)	478,219
<b>Other Financing Source (Use)</b>			
Advance In	30,896	47,924	78,820
Advance Out	(47,924)	(30,896)	(78,820)
<b>Total Other Financing Source (Use)</b>	<b>(17,028)</b>	<b>17,028</b>	<b>0</b>
Net Change in Fund Balances	484,286	(6,067)	478,219
Fund Balances Beginning of Year	2,484,280	136,958	2,621,238
Fund Balances End of Year	<b>\$2,968,566</b>	<b>\$130,891</b>	<b>\$3,099,457</b>

See accompanying notes to the basic financial statements

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**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 1 - REPORTING ENTITY**

The Licking County Educational Service Center (the Educational Service Center) is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Lakewood, Licking Valley, North Fork, Southwest Licking, Tri-Valley Local, Granville Exempted Village, Newark, and the Heath City School Districts. The Educational Service Center also provides limited services to the Career and Technology Education Centers of Licking County; the Licking Heights, Logan-Hocking, Canal Winchester, River View, Big Walnut, West Muskingum, Northern, Northridge, and East Muskingum Local School Districts, and the Coshocton, Delaware, Groveport Madison, Pickerington, Whitehall, Worthington, Mt. Vernon, Westerville, Gahanna-Jefferson, Reynoldsburg, Lancaster, and Southwestern City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Licking County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 114 support staff employees and 85 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading.

**Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Licking County Educational Service Center, this includes general operations and student related activities.

The Educational Service Center participates in the Licking Area Computer Association, the Career and Technology Education Centers of Licking County, the META Solutions, the Licking County Children and Families First Council, the Ohio School Comp Workers' Compensation Group Retrospective Rating Program, the Ohio School Plan, and the Ohio School Benefits Cooperative, which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 10 and 11.

**Component Units**

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from generally accepted accounting principles (GAAP) followed in the United States of America. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The more significant of the Educational Service Center's accounting policies are described below.

**Basis of Presentation**

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

**Government-wide Financial Statements** The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental receipts) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

The statement of net position presents the cash balance of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between disbursements and program receipts for each program or function of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the Educational Service Center.

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

**Fund Accounting**

The Educational Service 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 functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All funds used by the Educational Service Center are classified as governmental.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. The following is a description of the Educational Service Center’s major governmental fund:

**General Fund** The General Fund accounts for and reports all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Educational Service Center for any purpose, provided it is expended and transferred according to the general laws of Ohio.

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

**Basis of Accounting**

The Educational Service Center’s financial statements are prepared using the cash basis of accounting. (See Note 13) Except for modifications having substantial support, receipts are recorded in the Educational Service Center’s financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Educational Service Center are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**Budgetary Data**

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

**Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “equity in pooled cash and cash equivalents” on the financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2020 amounted to \$40,679, which includes \$1,090 assigned from other Educational Service Center funds.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Inventory and Prepaid Items**

The Educational Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**Capital Assets**

Acquisitions of property, plant, and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**Interfund Receivables/Payables**

The Educational Service Center reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Educational Service Center's cash basis of accounting.

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

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

**Long-Term Obligations**

The Educational Service Center's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

**Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include State and federal grants restricted to expenditures for specified purposes. The Educational Service Center applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Fund Balance**

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, prepaids, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted committed, or assigned. Currently the Educational Service Center does not have any nonspendable fund balances.

**Restricted:** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by State constitution or external resource providers. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (Educational Service Center resolutions).

Enabling legislation authorizes the Educational Service Center to access, levy, charge, or otherwise mandates payment of resources (from external resources providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Educational Service Center can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the Educational Service Center's Board of Education. In the General Fund, assigned amounts represent intended uses established by policies of the Educational Service Center's Board of Education or an Educational Service Center official delegated that authority by resolution or by State Statute. State statute authorizes the Educational Service Center's Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

**Internal Transactions**

Transfers within governmental activities are eliminated. Internal allocations of overhead disbursements from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements. For fiscal year 2020, this included the High Schools That Work, Title III Language Instruction for English Learners, and the Early Childhood Special Education Grant Special Revenue Funds.

**Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management are either unusual in nature or infrequent in occurrence. During fiscal year 2020, the Educational Service Center did not have activity that met the definition of a special item.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

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

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

**Licking County Educational Service Center, Ohio**

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

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) 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.

Interim monies held by the Educational Service Center may 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 obligations or securities 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 (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.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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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. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2020, the Educational Service Center had no investments.

**NOTE 4 - STATE FUNDING**

The Educational Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local school districts based on each school's total student count.

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**NOTE 5 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2020, the Educational Service Center participated with other school districts in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 11).



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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The types and amounts of coverage provided by the Ohio School Plan are as follows:

<u>Building and Contents (\$1,000 deductible)</u>	
Property	\$1,066,480
Valuable Paper and Records	100,000
Accounts Receivable	100,000
Extra Expense	1,000,000
Business Income	250,000
<u>Crime Insurance (\$1,000 deductible)</u>	
Employee Theft	25,000
Forgery or Alteration	25,000
Computer Fraud	25,000
<u>Inland Marine (\$1,000 deductible)</u>	
Electronic Data Processing Media and Data Reproduction	62,144
<u>Fleet Insurance</u>	
Automobile Liability (\$250 deductible comprehensive and \$500 collision)	2,000,000
<u>General Liability</u>	
Per Occurrence	2,000,000
Aggregate Limit	4,000,000
<u>Educational Fiduciary Liability (\$2,500 deductible)</u>	
Errors and Omissions	
Per Occurrence	2,000,000
Aggregate Limit	4,000,000

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

For fiscal year 2020, the Educational Service Center participated in the Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program), an insurance purchasing pool (Note 11). The Program is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for participants. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can either receive a premium refund or assessment. Employers will pay experience or based rated premiums under the same terms as if they were not in a group. The total premium for the entire group is the standard premium of the group. The standard premium serves as the benchmark that is adjusted up and down retroactively. In order to allocate the savings derived by formation of the Program, the Program's executive committee annually calculates the group-retrospective premium based on developed incurred claim losses for the whole group. The new premium is compared to the standard premium. If the retrospective premium is lower than the standard premium, a refund will be distributed to the employers of the group. If the retrospective premium is higher, an assessment will be charged to each participant.

Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Comp Management, Inc. serves as the third party administrator of the Program and provides administrative, cost control, and actuarial services. Each year, the Educational Service Center pays an enrollment fee to the Program to cover the cost of administering the Program.

The Education Service Center may withdraw from the Program if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Program prior to withdrawal.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

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

***Net Pension Liability/Net OPEB Liability***

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting 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 pension disclosures. See Note 7 for the OPEB disclosures.

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

Plan Description – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, 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.

**Licking County Educational Service Center, Ohio**

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

Age and service requirements for retirement are as follows:

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

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

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

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

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

The Educational Service Center’s contractually required contribution to SERS was \$428,257 for fiscal year 2020.

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

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

## **Licking County Educational Service Center, Ohio**

### *Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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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. 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.

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.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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The Educational Service Center's contractually required contribution to STRS was \$669,082 for fiscal year 2020.

***Net Pension Liability***

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 Education Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.07267450%	0.03648831%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.06972780%</u>	<u>0.03505350%</u>	
Change in Proportionate Share	<u>-0.00294670%</u>	<u>-0.00143481%</u>	
Proportionate Share of the Net Pension Liability	\$4,171,935	\$7,751,873	\$11,923,808

***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:

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

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

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

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

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

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

**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.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$5,846,375	\$4,171,935	\$2,767,711

***Actuarial Assumptions - STRS***

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

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

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

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

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

<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	1.00	2.25
Total	<u>100.00 %</u>	

\* Target weights will be phased in over a 24-month period concluding on July1, 2019.

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

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

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 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%)
Educational Service Center's proportionate share of the net pension liability	\$11,328,496	\$7,751,873	\$4,724,075



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 7 - DEFINED BENEFIT OPEB PLANS**

See Note 6 for a description of the net OPEB liability

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

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Educational Service Center's surcharge obligation was \$38,578.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$41,859 for fiscal year 2020.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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***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 Liability (Asset)***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.07342950%	0.03648831%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.07112570%</u>	<u>0.03505350%</u>	
Change in Proportionate Share	<u>-0.00230380%</u>	<u>-0.00143481%</u>	
Proportionate Share of the Net OPEB Liability (Asset)	\$1,788,662	(\$580,570)	\$1,208,092

***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.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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

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

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

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

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

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 6.

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

	1% Decrease <u>(2.22%)</u>	Current Discount Rate <u>(3.22%)</u>	1% Increase <u>(4.22%)</u>
Educational Service Center's proportionate share of the net OPEB liability	\$2,171,096	\$1,788,662	\$1,484,582

  

	1% Decrease <u>(6.00 % decreasing to 3.75%)</u>	Current Trend Rate <u>(7.00 % decreasing to 4.75%)</u>	1% Increase <u>(8.00 % decreasing to 5.75%)</u>
Educational Service Center's proportionate share of the net OPEB liability	\$1,433,080	\$1,788,662	\$2,260,432

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Actuarial Assumptions – STRS**

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

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

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

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

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

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

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 6.

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

	<u>1% Decrease</u> <u>(6.45%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.45%)</u>	<u>1% Increase</u> <u>(8.45%)</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$495,401)	(\$580,570)	(\$652,177)

  

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$658,340)	(\$580,570)	(\$485,321)

**NOTE 8 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days.

**Insurance Benefits**

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio. The Educational Service Center pays employee medical and drug monthly premiums of up to \$1,367.90 for family coverage and \$673.42 for single coverage. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides dental and prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center pays employee monthly dental premiums up to \$58.77 for family coverage and up to \$28.55 for single coverage. The Educational Service Center also provides life insurance in the amount of \$50,000 through OneAmerica Company contracted by the META Solutions at a cost of \$4.75 per employee per month.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

In prior fiscal years, the Educational Service Center has entered into capital lease agreements for copier equipment. These leases meet the criteria of a capital lease which is as defined as a lease which transfers benefits and risks of ownership to the lessee.

The agreement provides for minimum annual lease payments as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2021	\$18,663
2022	18,663
2023	18,663
2024	<u>7,777</u>
Total minimum lease payments	63,766
Less: Amount representing interest	(8,593)
Present value of minimum lease	<u><u>\$55,173</u></u>

Principal payments in fiscal year 2020 totaled \$13,351 in the governmental funds. Principal and interest payments for capital leases for fiscal year 2020 are shown in the financial statements in the function from which the Educational Service Center made the payment.

**NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS**

**Licking Area Computer Association**

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services over twenty-nine school districts, public community schools, and non-public schools within the boundaries of Licking, Muskingum, Fairfield, Perry, Knox, and Medina Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating school districts. The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists.

The LACA constitution states that any school or educational service center withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The Board exercises total control over the operations of LACA including budgeting, appropriating, contracting, and designating management. The Educational Service Center's payments to LACA for computer services for fiscal year 2020 were \$60,513. Financial statements for LACA can be obtained from their fiscal agent - the Career and Technology Education Centers of Licking County, 150 Price Road, Newark, OH 43055.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Career and Technology Education Centers of Licking County**

The Career and Technology Education Centers of Licking County is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three board members from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District, which possesses its own budgeting and taxing authority. The Board exercises total control over the operations of the Career and Technology Education Center including budgeting, appropriating, contracting, and designating management. The Educational Service Center's payments to the Career and Technology Education Centers of Licking County for services for fiscal year 2020 were \$3,700. To obtain financial information write to the Career and Technology Education Centers of Licking County, Benjamin Streby, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

**META Solutions**

The School District participates in the META Solutions (META), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. The Educational Service Center made no payments to META during fiscal year 2020. Financial information can be obtained from the Metropolitan Educational Technology Association at 2100 Citygate Drive, Columbus, Ohio 43219.

**Licking County Children and Families First Council**

The Licking County Children and Families First Council (Council) is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: Director of the Licking Knox County Mental Health and Recovery Services Board, Director of the Licking County Alcoholism Prevention Program, Health Commissioner of the Licking County Health Department, Health Commissioner of the City of Newark, Director of Licking County Human Services, Director of Family and Health Services, Director of Moundbuilders Guidance Center, Director of Family Counseling Services, Director of Licking County Coalition for Housing, Superintendent of the Licking County Board of Developmental Disabilities, Licking County Juvenile Court Judge, Superintendent of the Licking County Educational Services Center, the Superintendent of Newark City Schools, a representative of the City of Newark, a representative of the Licking Economic Action Development Study, a representative of the Licking County United Way, a representative from Family and Consumer Services, a representative of the County's Early Intervention Network, a representative of the Licking County Commissioners Office, the East District Family and Children First Coordinator and at least three individuals representing the interests of families of the County. When possible, the number of members representing families shall be equal to twenty percent of the Council's remaining membership. The governing board exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. In fiscal year 2020, the Educational Service Center paid a membership fee of \$2,000 to the council.



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

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**NOTE 11 - INSURANCE PURCHASING POOLS**

**Ohio School Comp Workers' Compensation Group Retrospective Rating Program**

The Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program) is a shared risk pool among school districts in Ohio. Section 4123.29, Ohio Revised Code, permits the establishment of employer group retrospective rating plans for workers' compensation rating purposes. The Program is governed by the Ohio School Board Association (OSBA) Executive Committee that consists of seven members as follows: the president of OSBA, Immediate Past President of OSBA, and five representatives elected from the participating school districts.

The Program, a Bureau of Workers' Compensation certified sponsor, established the program based upon guidelines set forth by the Bureau of Workers' Compensation (BWC). The Program created a group of school districts that will practice effective workplace safety and claims management to achieve lower premiums for workers compensation coverage than they would individually. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can receive either a premium refund or premium assessment. The Program's third party administrator (TPA), Comp Management, Inc., provides administrative, cost control, and actuarial services to the Program. The cost of the TPA will be paid by each school district in proportion to its payroll to the total payroll of the group. The Educational Service Center paid \$2,510 in enrollment fees to the Program for fiscal year 2020 during fiscal year 2019 and \$2,535 for fiscal year 2021 during fiscal year 2020.

**Ohio School Plan**

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs, and other administrative services. The OSP's business and affairs are conducted by an eleven member Board of directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales, and marketing.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**Ohio School Benefits Cooperative**

The Educational Service Center participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life, and/or other group insurance coverages for their employees, and the eligible dependents and designated beneficiaries of such employees, and propose to have certain other eligible Educational Service Center or groups of Educational Service Centers join them for the same purposes. Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental, and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual is the Administrator of the OSBC. On July 1, 2006, the Educational Service Center elected to participate in the joint insurance purchasing program for medical, prescription drug, and dental coverage.

**NOTE 12 - CONTINGENCIES**

**Grants**

The Educational Service Center received financial assistance from federal and state 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2020.

**Litigation**

As of June 30, 2020, the Educational Service Center was not a party to any lawsuits.

**NOTE 13 - NONCOMPLIANCE**

Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(B) provides that the Educational Service Center shall prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America. However, the Educational Service Center prepares its financial statements in accordance with standards established by the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the Educational Service Center can be fined and various other administrative remedies for its failure to file the required financial report.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**NOTE 14 - FUND BALANCES**

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

Fund Balances	General	Other Governmental Funds	Total
<u>Restricted for:</u>			
Public Preschool	\$0	\$92,827	\$92,827
Advisory Services	0	38,064	38,064
<i>Total Restricted</i>	0	130,891	130,891
<u>Committed to:</u>			
Technology Services	10,027	0	10,027
Maintenance Services	43,729	0	43,729
<i>Total Committed</i>	53,756	0	53,756
<u>Assigned to:</u>			
Public Preschool Program	66,796	0	66,796
Professional Services	17,304	0	17,304
Maintenance and Supplies	9,348	0	9,348
<i>Total Assigned</i>	93,448	0	93,448
Unassigned	2,821,362	0	2,821,362
<i>Total Fund Balances</i>	<u>\$2,968,566</u>	<u>\$130,891</u>	<u>\$3,099,457</u>

**NOTE 15 - INTERFUND BALANCES**

Unpaid interfund cash advances at June 30, 2020, were as follows:

	Advances Out	Advances In
General Fund	\$47,924	\$0
<u>Nonmajor Special Revenue Fund:</u>		
Miscellaneous State Grants	0	44,633
Handicapped Preschool Grant	0	2,283
Title III Grant Fund	0	1,008
<i>Total All Funds</i>	<u>\$47,924</u>	<u>\$47,924</u>

The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by the grant funds.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**NOTE 16 - CHANGE IN ACCOUNTING PRINCIPLE**

The Educational Service Center implemented GASB Statement No. 84, *Fiduciary Activities* and related guidance from (GASB) Implementation Guide No. 2019-2, *Fiduciary Activities*. GASB Statement No. 84 established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. The Educational Service Center has no fiduciary funds and had no changes to the financial statements.

**NOTE 17 – COVID-19**

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the Educational Service Center. The Educational Service Center's investment portfolio and the investments of the pension and other employee benefit plans in which the Educational Service Center participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Educational Service Center's future operating costs, revenues, and additional recovery from emergency funding, either federal or State, cannot be estimated.

## **Licking County Educational Service Center, Ohio**

### *Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2019*

*Unaudited*

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The discussion and analysis of the Licking County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2019. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the cash financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

Key financial highlights for fiscal year 2019 are as follows:

- Net position of governmental activities increased \$1,860,594.
- The Educational Service Center had \$10,158,951 in disbursements; \$11,283,010 of these disbursements were offset by program specific charges for services and operating grants and contributions. General receipts were \$736,535.
- At the end of the current fiscal year, the Educational Service Center's governmental funds reported receipts in the amount of \$12,019,545 and disbursements in the amount of \$10,158,951. The ending fund balance was \$2,621,238 which is an increase of \$1,860,594 from the prior fiscal year.

### **Using this Annual Financial Report**

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

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

### **Basis of Accounting**

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than generally accepted accounting principles. Under the Educational Service Center's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

**Licking County Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*Unaudited*

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As a result of using the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind that limitations resulting from the use of the cash basis of accounting.

***Reporting the Educational Service Center as a Whole***

**Statement of Net Position – Cash Basis and Statement of Activities – Cash Basis**

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for the Educational Service Center, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2019?” The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis answer this question. These statements report the Educational Service Center’s net position and changes in that position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

In the Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis, all of the Educational Service Center’s activities are reported as governmental including instruction and support services.

***Reporting the Educational Service Center’s Most Significant Funds***

***Fund Financial Statements***

The analysis of the Educational Service Center’s major fund begins on page 48. Fund financial reports provide detailed information about the Educational Service Center’s major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center’s most significant funds. The Educational Service Center’s major governmental fund is the General Fund.

***Governmental Funds*** All of the Educational Service Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using a cash basis. The governmental fund statements provide a detailed short-term view of the Educational Service Center’s general governmental 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 Educational Service Center as a Whole**

The Educational Service Center has chosen to report on an Other Comprehensive Basis of Accounting in a format similar to that required by Governmental Accounting Statement No. 34.

Recall that the Statement of Net Position – Cash Basis provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center’s net position for 2019 compared to 2018.

**Licking County Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*Unaudited*

**Table 1 - Net Position - Cash Basis**

	Governmental Activities		
	2019	2018	Change
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,620,249	\$760,644	\$1,859,605
Cash and Cash Equivalents in Segregated Accounts	989	0	989
<b>Total Assets</b>	<b>2,621,238</b>	<b>760,644</b>	<b>1,860,594</b>
<b>Net Position</b>			
Restricted	136,958	109,586	27,372
Unrestricted	2,484,280	651,058	1,833,222
<b>Total Net Position</b>	<b>\$2,621,238</b>	<b>\$760,644</b>	<b>\$1,860,594</b>

Net position in the amount of \$136,958, or 5 percent, is restricted as to how the funds can be spent. The remaining balance, \$2,484,280 or 95 percent, represents unrestricted net position and is to be used to meet ongoing obligations. The increase in equity in pooled cash and cash equivalents and net position was the result of an increase in receipts in the area of charges for services due to the Education Service Center processing billings to local school districts more timely, increases in rates charged clients, and increases in services provided to local school districts compared to prior fiscal years.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2019, and comparisons to fiscal year 2018.

**Table 2 - Changes in Net Position**

	Governmental Activities		
	2019	2018	Change
<b>Receipts</b>			
Program Receipts:			
Charges for Services	\$10,061,210	\$7,991,168	\$2,070,042
Operating Grants and Contributions	1,221,800	1,128,282	93,518
<b>Total Program Receipts</b>	<b>11,283,010</b>	<b>9,119,450</b>	<b>2,163,560</b>
General Receipts:			
Grants and Entitlements	654,192	644,237	9,955
Investment Earnings	35,689	8,322	27,367
Miscellaneous	46,654	27,551	19,103
<b>Total General Receipts</b>	<b>736,535</b>	<b>680,110</b>	<b>56,425</b>
<b>Total Receipts</b>	<b>12,019,545</b>	<b>9,799,560</b>	<b>2,219,985</b>
<b>Program Disbursements</b>			
Instruction:			
Regular	2,654	4,805	(2,151)
Intergovernmental	15,537	0	15,537
Special	4,750,265	4,704,246	46,019
Intergovernmental	49,016	39,295	9,721
Support Services:			
Pupils	2,855,491	2,363,909	491,582
Instructional Staff	165,431	1,331,252	(1,165,821)
Intergovernmental	386,875	403,851	(16,976)
Board of Education	11,888	13,772	(1,884)
Administration	1,556,797	722,997	833,800
Intergovernmental	61,936	60,828	1,108
Fiscal	216,433	263,825	(47,392)
Operation and Maintenance of Plant	77,044	177,459	(100,415)
Central	9,584	76,146	(66,562)
<b>Total Disbursements</b>	<b>10,158,951</b>	<b>10,162,385</b>	<b>(3,434)</b>
<i>Change in Net Position</i>	1,860,594	(362,825)	2,223,419
Net Position Beginning of Year	760,644	1,123,469	(362,825)
<b>Net Position End of Year</b>	<b>\$2,621,238</b>	<b>\$760,644</b>	<b>\$1,860,594</b>

**Licking County Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*Unaudited*

The Educational Service Center relies heavily upon special education programs and services provided to local school districts. As a result, charges for services receipts are 84 percent of total receipts. The increase in net position is the result of an increase in receipts due to more timely billings and collections for services provided to local school districts, an increase in rates charged to the local school districts, and increases in services provided to local school districts.

Overall disbursements remained relatively consistent from fiscal year 2018 to fiscal year 2019. Special instruction programs comprise approximately 47 percent of total governmental program disbursements while support services comprise approximately 53 percent of total governmental program disbursements. Of the support services disbursements, approximately 54 percent is for pupils, 10 percent for instructional staff and instructional staff intergovernmental, 30 percent for administration and administration intergovernmental, 4 percent for fiscal, and 2 percent for the remaining disbursements.

The Statement of Activities – Cash Basis shows the cost of program services and the charges for services and grants and contributions, offsetting those services. Table 3 shows the total cost of services and the net cost of services. In other words, it identifies the cost of those services supported by unrestricted entitlements.

**Table 3 - Governmental Activities - Cash Basis**

	2019 Total Cost of Services	2019 Net Cost of Services	2018 Total Cost of Services	2018 Net Cost of Services
<b>Program Disbursements</b>				
Instruction:				
Regular	\$2,654	(\$3,729)	\$4,805	\$1,714
Intergovernmental	15,537	147	0	0
Special	4,750,265	(1,636,441)	4,704,246	(791,478)
Intergovernmental	49,016	1,551	39,295	(1,551)
Support Services:				
Pupils	2,855,491	432,119	2,363,909	1,107,472
Instructional Staff	165,431	(8,737)	1,331,252	(259,769)
Intergovernmental	386,875	27,116	403,851	(27,091)
Board of Education	11,888	11,888	13,772	13,772
Administration	1,556,797	10,657	722,997	544,151
Intergovernmental	61,936	4,368	60,828	(4,081)
Fiscal	216,433	31,320	263,825	243,086
Operation and Maintenance of Plant	77,044	10,062	177,459	147,009
Central	9,584	(4,380)	76,146	69,701
<b>Totals</b>	<b><u>\$10,158,951</u></b>	<b><u>(\$1,124,059)</u></b>	<b><u>\$10,162,385</u></b>	<b><u>\$1,042,935</u></b>

The prior schedule clearly shows that the majority of the Educational Service Center's disbursements are funded through the program receipts. For 2019, all of the governmental activities performed by the Educational Service Center were supported through program revenues such as charges for services, grants, and contributions due to the up-to-date processing of bills and collections compared to prior fiscal years for charges for services, increases in rates charged to the local school districts, and an increase in services provided to local school districts. Grants and entitlements, interest earnings, and miscellaneous revenues also contributed to the increase in net position for fiscal year 2019.



**Licking County Educational Service Center, Ohio**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2019*  
*Unaudited*

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**The Educational Service Center's Major Fund**

The Educational Service Center's major fund, the General, is accounted for using the cash basis of accounting. The General Fund had total receipts of \$10,811,017, disbursements of \$8,946,899, and other financing uses of \$30,896 which resulted in an increase in fund balance of \$1,833,222. Receipts increased by \$2,210,769, disbursements increased by \$39,998, and other financing uses increased by \$30,896. The increase in receipts is primarily reflected in the area of charges for services in the amount of \$2,172,973. The increase in charges for services is the result of the Educational Service Center processing bills and collections for contracted services provided to local school districts more timely than in prior years, increases in rates charged to the local school districts, and increases in services provided to local school districts.

***Budgeting Highlights***

Under Ohio law Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2019 a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

**Debt Administration**

***Debt***

At June 30, 2019, the Educational Service Center had \$68,524 in capital leases outstanding. Principal payments in the amount of \$18,468 were made during fiscal year 2019. See Note 9 for more detailed information of the Educational Service Center's debt.

***Economic Factors***

The Licking County Educational Service Center's net position increased by \$1,860,594 during fiscal year 2019. As the preceding information reflects, the Educational Service Center relies heavily on the special education services that are provided to local school districts. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from these services. The financial positions of the local school districts and their willingness to continue to contract for special education services with the Educational Service Center will have a direct impact on the increase or decrease in receipts of the Educational Service Center.

**Contacting the Educational Service Center's Financial Management**

This financial report is designed to provide our citizens, districts, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information please contact Julio Valladares, Treasurer at the Licking County Educational Service Center, 145 Quentin Road, Newark, Ohio 43055. You may also E-mail the treasurer at [jcvalladares@laca.org](mailto:jcvalladares@laca.org).

**Licking County Educational Service Center, Ohio**

*Statement of Net Position - Cash Basis*

*June 30, 2019*

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,620,249
Cash and Cash Equivalents in Segregated Accounts	<u>989</u>
<i>Total Assets</i>	<u>2,621,238</u>
<b>Net Position</b>	
Restricted for Public Preschool	102,702
Restricted for Advisory Services	34,256
Unrestricted	<u>2,484,280</u>
<i>Total Net Position</i>	<u><u>\$2,621,238</u></u>

See accompanying notes to the basic financial statements

**Licking County Educational Service Center, Ohio**

*Statement of Activities - Cash Basis*

*For the Fiscal Year Ended June 30, 2019*

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$2,654	\$3,849	\$2,534	\$3,729
Intergovernmental	15,537	0	15,390	(147)
Special	4,750,265	5,832,407	554,299	1,636,441
Intergovernmental	49,016	0	47,465	(1,551)
Support Services:				
Pupils	2,855,491	2,423,372	0	(432,119)
Instructional Staff	165,431	150,940	23,228	8,737
Intergovernmental	386,875	0	359,759	(27,116)
Board of Education	11,888	0	0	(11,888)
Administration	1,556,797	1,402,743	143,397	(10,657)
Intergovernmental	61,936	0	57,568	(4,368)
Fiscal	216,433	177,253	7,860	(31,320)
Operation and Maintenance of Plant	77,044	58,482	8,500	(10,062)
Central	9,584	12,164	1,800	4,380
<b>Totals</b>	<b>\$10,158,951</b>	<b>\$10,061,210</b>	<b>\$1,221,800</b>	<b>\$1,124,059</b>

**General Receipts**

Grants and Entitlements not Restricted to Specific Programs	654,192
Investment Earnings	35,689
Miscellaneous	46,654

*Total General Receipts* 736,535

*Change in Net Position* 1,860,594

Net Position Beginning of Year 760,644

*Net Position End of Year* \$2,621,238

See accompanying notes to the basic financial statements

**Licking County Educational Service Center, Ohio**  
*Statement of Cash Basis Assets and Fund Balances*  
*Governmental Funds*  
*June 30, 2019*

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$2,484,280	\$135,969	\$2,620,249
Cash and Cash Equivalents in Segregated Accounts	0	989	989
Total Assets	<u>\$2,484,280</u>	<u>\$136,958</u>	<u>\$2,621,238</u>
<b>Fund Balances</b>			
Restricted	\$0	\$136,958	\$136,958
Committed	32,537	0	32,537
Assigned	126,818	0	126,818
Unassigned	2,324,925	0	2,324,925
Total Fund Balances	<u>2,484,280</u>	<u>136,958</u>	<u>2,621,238</u>
Total Fund Balances	<u>\$2,484,280</u>	<u>\$136,958</u>	<u>\$2,621,238</u>

See accompanying notes to the basic financial statements

**Licking County Educational Service Center, Ohio**  
*Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2019*

	General	Other Governmental Funds	Total Governmental Funds
<b>Receipts</b>			
Intergovernmental	\$654,192	\$1,192,243	\$1,846,435
Investment Earnings	35,689	0	35,689
Charges for Services	9,951,524	13,751	9,965,275
Tuition and Fees	95,935	0	95,935
Contributions and Donations	27,023	2,534	29,557
Miscellaneous	46,654	0	46,654
<b>Total Receipts</b>	<b>10,811,017</b>	<b>1,208,528</b>	<b>12,019,545</b>
<b>Disbursements</b>			
<b>Current:</b>			
<b>Instruction:</b>			
Regular	0	2,654	2,654
Special	4,239,153	511,112	4,750,265
<b>Support Services:</b>			
Pupils	2,854,946	545	2,855,491
Instructional Staff	130,835	34,596	165,431
Board of Education	11,888	0	11,888
Administration	1,427,998	128,799	1,556,797
Fiscal	208,933	7,500	216,433
Operation and Maintenance of Plant	68,934	8,110	77,044
Central	4,212	5,372	9,584
Intergovernmental	0	513,364	513,364
<b>Total Disbursements</b>	<b>8,946,899</b>	<b>1,212,052</b>	<b>10,158,951</b>
Excess of Revenues Over (Under) Expenditures	1,864,118	(3,524)	1,860,594
<b>Other Financing Source (Use)</b>			
Advance In	0	30,896	30,896
Advance Out	(30,896)	0	(30,896)
<b>Total Other Financing Source (Use)</b>	<b>(30,896)</b>	<b>30,896</b>	<b>0</b>
Net Change in Fund Balances	1,833,222	27,372	1,860,594
Fund Balances Beginning of Year	651,058	109,586	760,644
Fund Balances End of Year	<b>\$2,484,280</b>	<b>\$136,958</b>	<b>\$2,621,238</b>

See accompanying notes to the basic financial statements

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## **Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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### **NOTE 1 - REPORTING ENTITY**

The Licking County Educational Service Center (the Educational Service Center) is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Lakewood, Licking Valley, North Fork, Southwest Licking Local School Districts, Granville Exempted Village School District, Newark, and the Heath City School District. The Educational Service Center also provides limited services to the Career and Technology Education Centers of Licking County, the Licking Heights, Logan-Hocking, Canal Winchester, River View, Big Walnut, West Muskingum, Northern, Northridge, and East Muskingum Local School Districts, the Coshocton, Delaware, Groveport Madison, Pickerington, Whitehall, Worthington, Mt. Vernon, Westerville, Gahanna-Jefferson, Reynoldsburg, Lancaster, and Southwestern City School Districts. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Licking County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 91 support staff employees and 70 certified personnel that provide services to the school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Educational Service Center are not misleading.

#### **Primary Government**

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Licking County Educational Service Center, this includes general operations and student related activities.

The Educational Service Center participates in the Licking Area Computer Association, the Career and Technology Education Centers of Licking County, the Metropolitan Educational Technology Association, the Licking County Children and Families First Council, the Ohio School Comp Workers' Compensation Group Retrospective Rating Program, the Ohio School Plan, and the Ohio School Benefits Cooperative, which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 10 and 11.

#### **Component Units**

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 2, these financial statements are presented on a cash basis of accounting. This cash basis of accounting differs from generally accepted accounting principles (GAAP) followed in the United States of America. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. The more significant of the Educational Service Center's accounting policies are described below.

**Basis of Presentation**

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

**Government-wide Financial Statements** The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government. These statements usually distinguish between those activities of the Educational Service Center that are governmental (primarily supported by intergovernmental receipts) and those that are considered business-type activities (primarily supported by fees and charges). The Educational Service Center, however, has no business-type activities.

The statement of net position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The statement of activities presents a comparison between disbursements and program receipts for each program or function of the Educational Service Center's governmental activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible. Program receipts include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. General receipts are all receipts not classified as program receipts, with certain limited exceptions. The comparison of direct disbursements with program receipts identifies the extent to which each governmental function is self-financing on a cash basis or draws from the general receipts of the Educational Service Center.

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

**Fund Accounting**

The Educational Service 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 functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. All funds used by the Educational Service Center are classified as governmental.



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**Governmental Funds** Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. The following is a description of the Educational Service Center's major governmental fund:

**General Fund** The General Fund accounts for and reports all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Educational Service Center for any purpose, provided it is expended and transferred according to the general laws of Ohio.

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

**Basis of Accounting**

The Educational Service Center's financial statements are prepared using the cash basis of accounting. (See Note 13) Except for modifications having substantial support, receipts are recorded in the Educational Service Center's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred. Any such modifications made by the Educational Service Center are described in the appropriate section in this note.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

**Budgetary Data**

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

**Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center is pooled. Monies for all funds are maintained in these accounts or temporarily used to purchase short term investments. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

The Educational Service Center has a segregated bank account for monies held separate from the Educational Service Center's central bank account. This bank account is presented on the financial statements as "cash and cash equivalents in segregated accounts", since these funds are not deposited into the Educational Service Center treasury.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2019 amounted to \$35,689, which includes \$689 assigned from other Educational Service Center funds.

**Inventory and Prepaid Items**

The Educational Service Center reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

**Capital Assets**

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets in the accompanying financial statements.

**Interfund Receivables/Payables**

The Educational Service Center reports advances in and advances out for interfund loans. These items are not reflected as assets and liabilities in the accompanying financial statements.

**Accumulated Leave**

In certain circumstances, such as upon leaving employment or retirement, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Educational Service Center's cash basis of accounting.

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

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

**Long-Term Obligations**

The Educational Service Center's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid.

**Net Position**

Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net position restricted for other purposes include State and federal grants restricted to expenditures for specified purposes. The Educational Service Center applies restricted resources first when a disbursement is incurred for purposes for which both restricted and unrestricted net position are available.

## Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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### **Fund Balance**

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

**Nonspendable:** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term amount of loans and notes receivable, prepaids, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted committed, or assigned. Currently the Educational Service Center does not have any nonspendable fund balances.

**Restricted:** The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by State constitution or external resource providers. Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions or enabling legislation (Educational Service Center resolutions).

Enabling legislation authorizes the Educational Service Center to access, levy, charge, or otherwise mandates payment of resources (from external resources providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Educational Service Center can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

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

**Assigned:** Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the Educational Service Center's Board of Education. In the general fund, assigned amounts represent intended uses established by policies of the Educational Service Center's Board of Education or an Educational Service Center official delegated that authority by resolution or by State Statute. State statute authorizes the Educational Service Center's Treasurer to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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

**Internal Transactions**

Transfers within governmental activities are eliminated. Internal allocations of overhead disbursements from one program to another or within the same program are eliminated on the Statement of Activities. Payments of interfund services provided and used are not eliminated.

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies 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 and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

**Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements. For fiscal year 2019, this included the Title III Language Instruction for English Learners and the Early Childhood Special Education Grant Special Revenue Funds.

**Special Items**

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management are either unusual in nature or infrequent in occurrence. During fiscal year 2019, the Educational Service Center did not have activity that met the definition of a special item.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

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

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

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019*

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) 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.

Interim monies held by the Educational Service Center may 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 obligations or securities 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 described in (1) or (2) 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 (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.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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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. Investments may only be made through specified dealers and institutions.

Investments

As of June 30, 2019, the Educational Service Center had no investments.

**NOTE 4 - STATE FUNDING**

The Educational Service Center, under state law, provides supervisory services to the local school districts within its territory. Each city and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local school districts based on each school's total student count.

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of local school districts agree to the services and the apportionment of the costs to all of the local school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$26 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**NOTE 5 - RISK MANAGEMENT**

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, the Educational Service Center participated with other school districts in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 11).

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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The types and amounts of coverage provided by the Ohio School Plan are as follows:

<u>Building and Contents (\$1,000 deductible)</u>	
Property	\$1,048,656
Valuable Paper and Records	100,000
Accounts Receivable	100,000
Extra Expense	1,000,000
Business Income	250,000
<u>Crime Insurance (\$1,000 deductible)</u>	
Employee Theft	25,000
Forgery or Alteration	25,000
Computer Fraud	25,000
<u>Inland Marine (\$1,000 deductible)</u>	
Electronic Data Processing Media and Data Reproduction	61,105
<u>Fleet Insurance</u>	
Automobile Liability (\$250 deductible comprehensive and \$500 collision)	2,000,000
<u>General Liability</u>	
Per Occurrence	2,000,000
Aggregate Limit	4,000,000
<u>Educational Legal Liability for General Liability (\$2,500 deductible)</u>	
Errors and Omissions	
Per Occurrence	2,000,000
Aggregate Limit	4,000,000

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

For fiscal year 2019, the Educational Service Center participated in the Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program), an insurance purchasing pool (Note 11). The Program is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for participants. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can either receive a premium refund or assessment. Employers will pay experience or based rated premiums under the same terms as if they were not in a group. The total premium for the entire group is the standard premium of the group. The standard premium serves as the benchmark that is adjusted up and down retroactively. In order to allocate the savings derived by formation of the Program, the Program's executive committee annually calculates the group-retrospective premium based on developed incurred claim losses for the whole group. The new premium is compared to the standard premium. If the retrospective premium is lower than the standard premium, a refund will be distributed to the employers of the group. If the retrospective premium is higher, an assessment will be charged to each participant.

Participation in the Program is limited to school districts that can meet the Program's selection criteria. The firm of Comp Management, Inc. serves as the third party administrator of the Program and provides administrative, cost control, and actuarial services. Each year, the Educational Service Center pays an enrollment fee to the Program to cover the cost of administering the Program.

The Education Service Center may withdraw from the Program if written notice is provided sixty days prior to the prescribed application deadline of the Ohio Bureau of Workers' Compensation. However, the participant is not relieved of the obligation to pay any amounts owed to the Program prior to withdrawal.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 6 - DEFINED BENEFIT PENSION PLANS**

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

***Net Pension Liability/Net OPEB Liability***

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting 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 pension disclosures. See Note 7 for the OPEB disclosures.

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

Plan Description – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, 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.



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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Age and service requirements for retirement are as follows:

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$334,888 for fiscal year 2019.

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

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

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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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. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 27 years of service, or 30 years of service 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.

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. Investment allocation decisions are determined by the member. 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 goes to the DC Plan and the remaining 2 percent goes 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 after termination of employment at age 50 or later.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For the fiscal year ended June 30, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. For fiscal year 2019, the contributions rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The Educational Service Center's contractually required contribution to STRS was \$576,158 for fiscal year 2019.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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***Net Pension Liability***

The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability Prior Measurement Date	0.07012560%	0.03598319%	
Proportion of the Net Pension Liability Current Measurement Date	<u>0.07267450%</u>	<u>0.03648831%</u>	
Change in Proportionate Share	<u>0.00254890%</u>	<u>0.00050512%</u>	
Proportionate Share of the Net Pension Liability	\$4,162,203	\$8,022,960	\$12,185,163

***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, 2018, are presented below:

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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

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

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

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

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

**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.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$5,862,777	\$4,162,203	\$2,736,386

***Actuarial Assumptions - STRS***

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, are presented below:

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

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

Actuarial assumptions used in the July 1, 2018 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:

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

<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	1.00	2.25
Total	<u>100.00 %</u>	

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

**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. 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, 2018.

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

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Educational Service Center's proportionate share of the net pension liability	\$11,716,477	\$8,022,960	\$4,896,899

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 7 – DEFINED BENEFIT OPEB PLANS**

See note 6 for a description of the net OPEB liability

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

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll 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 2019, this amount was \$21,600. 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 2019, the Educational Service Center's surcharge obligation was \$41,859.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$53,819 for fiscal year 2019.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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***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, 2020. 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. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

***Net OPEB Liability (Asset)***

The net OPEB liability (asset) was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net OPEB liability (asset) was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability Prior Measurement Date	0.07131300%	0.03598319%	
Proportion of the Net OPEB Liability Current Measurement Date	<u>0.07342950%</u>	<u>0.03648831%</u>	
Change in Proportionate Share	<u>0.00211650%</u>	<u>0.00050512%</u>	
Proportionate Share of the Net OPEB Liability (Asset)	\$2,037,133	(\$586,330)	\$1,450,803

***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



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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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, 2018, are presented below:

Inflation	3.00 percent
Wage Increases	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investment expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.62 percent
Prior Measurement Date	3.56 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.70 percent
Prior Measurement Date	3.63 percent
Medical Trend Assumption	
Medicare	5.375 to 4.75 percent
Pre-Medicare	7.25 to 4.75 percent

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

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

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

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 6.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018 was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the 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 3.62 percent, as of June 30, 2018 (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 Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
School District's proportionate share of the net OPEB liability	\$2,471,900	\$2,037,133	\$1,692,878

  

	1% Decrease (6.25 % decreasing to 3.75%)	Current Trend Rate (7.25 % decreasing to 4.75%)	1% Increase (8.25 % decreasing to 5.75%)
School District's proportionate share of the net OPEB liability	\$1,643,592	\$2,037,133	\$2,558,251

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the Prior Measurement Date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent 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.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 6.

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. 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, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

***Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate*** The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	1% Decrease <u>(3.13%)</u>	Current Discount Rate <u>(4.13%)</u>	1% Increase <u>(5.13%)</u>
School District's proportionate share of the net OPEB asset	(\$502,540)	(\$586,330)	(\$656,752)

  

	1% Decrease <u></u>	Current Trend Rate <u></u>	1% Increase <u></u>
School District's proportionate share of the net OPEB asset	(\$652,776)	(\$586,330)	(\$518,848)

**NOTE 8 - EMPLOYEE BENEFITS**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Classified employees and administration employees earn ten to twenty-five days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to 200 days for all personnel. Upon retirement, payment is made for one-fourth of accrued, but unused sick leave credit to a maximum of 50 days.

**Insurance Benefits**

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio. The Educational Service Center pays employee medical and drug monthly premiums of up to \$1,360.02 for family coverage and \$669.55 for single coverage. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides dental and prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center pays employee monthly dental premiums up to \$63.28 for family coverage and up to \$30.74 for single coverage. The Educational Service Center also provides life insurance in the amount of \$50,000 through OneAmerica Company contracted by the Metropolitan Educational Technology Association at a cost of \$4.75 per employee per month.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE**

In current and prior fiscal years, the Educational Service Center has entered into capital lease agreements for copier equipment. These leases meet the criteria of a capital lease which is as defined as a lease which transfers benefits and risks of ownership to the lessee.

The agreement provides for minimum annual lease payments as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2020	\$18,663
2021	18,663
2022	18,663
2023	18,663
2024	<u>7,777</u>
Total minimum lease payments	82,429
Less: Amount representing interest	<u>(13,905)</u>
Present value of minimum lease	<u><u>\$68,524</u></u>

Principal payments in fiscal year 2019 totaled \$18,468 in the governmental funds. Principal and interest payments for capital leases for fiscal year 2019 are shown in the financial statements in the function from which the Educational Service Center made the payment.

**NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS**

**Licking Area Computer Association**

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services over twenty-nine school districts, public community schools, and non-public schools within the boundaries of Licking, Muskingum, Fairfield, Perry, Knox, and Medina Counties. These entities consist of public school districts, private schools, and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of LACA consists of the superintendents from all participating school districts. The continued existence of LACA is not dependent on the School District's continued participation and no equity interest exists.

The LACA constitution states that any school or educational service center withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The Board exercises total control over the operations of LACA including budgeting, appropriating, contracting, and designating management. The Educational Service Center's payments to LACA for computer services for fiscal year 2019 were \$61,954. Financial statements for LACA can be obtained from their fiscal agent - the Career and Technology Education Centers of Licking County, 150 Price Road, Newark, OH 43055.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**Career and Technology Education Centers of Licking County**

The Career and Technology Education Centers of Licking County is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three board members from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District, which possesses its own budgeting and taxing authority. The Board exercises total control over the operations of the Career and Technology Education Center including budgeting, appropriating, contracting, and designating management. The Educational Service Center's payments to the Career and Technology Education Centers of Licking County for services for fiscal year 2019 were \$2,430. To obtain financial information write to the Career and Technology Education Centers of Licking County, Benjamin Streby, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

**Metropolitan Educational Technology Association**

The Educational Service Center participates in the Metropolitan Educational Technology Association (META), which is a jointly governed organization, created as a regional council of governments pursuant to Chapter 167 of the Ohio Revised Code. META operates as, and has all the powers of, a data acquisition site/information technology center pursuant to applicable provisions of the Ohio Revised Code. The organization was formed for the purpose of identifying, developing, and providing to members and nonmembers innovative educational and technological services and products, as well as expanded opportunities for cooperative purchasing. The General Assembly of META consists of one delegate from every member school district. The delegate is the superintendent of the school district or the superintendent's designee. The degree of control exercised by any participating school district is limited to its representation on the General Assembly. The General Assembly exercises total control over the operation of META including budgeting, appropriating, contracting, and designating management. The Educational Service Center made no payments to META during fiscal year 2019. Financial information can be obtained from the Metropolitan Educational Technology Association at 2100 Citygate Drive, Columbus, Ohio 43219.

**Licking County Children and Families First Council**

The Licking County Children and Families First Council (Council) is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: Director of the Licking Knox County Mental Health and Recovery Services Board, Director of the Licking County Alcoholism Prevention Program, Health Commissioner of the Licking County Health Department, Health Commissioner of the City of Newark, Director of Licking County Human Services, Director of Family and Health Services, Director of Moundbuilders Guidance Center, Director of Family Counseling Services, Director of Licking County Coalition for Housing, Superintendent of the Licking County Board of Developmental Disabilities, Licking County Juvenile Court Judge, Superintendent of the Licking County Educational Services Center, the Superintendent of Newark City Schools, a representative of the City of Newark, a representative of the Licking Economic Action Development Study, a representative of the Licking County United Way, a representative from Family and Consumer Services, a representative of the County's Early Intervention Network, a representative of the Licking County Commissioners Office, the East District Family and Children First Coordinator and at least three individuals representing the interests of families of the County. When possible, the number of members representing families shall be equal to twenty percent of the Council's remaining membership. The governing board exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. In fiscal year 2019, the Educational Service Center paid a membership fee of \$2,000 to the council.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**NOTE 11 - INSURANCE PURCHASING POOLS**

**Ohio School Comp Workers' Compensation Group Retrospective Rating Program**

The Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program) is a shared risk pool among school districts in Ohio. Section 4123.29, Ohio Revised Code, permits the establishment of employer group retrospective rating plans for workers' compensation rating purposes. The Program is governed by the Ohio School Board Association (OSBA) Executive Committee that consists of seven members as follows: the president of OSBA, Immediate Past President of OSBA, and five representatives elected from the participating school districts.

The Program, a Bureau of Workers' Compensation certified sponsor, established the program based upon guidelines set forth by the Bureau of Workers' Compensation (BWC). The Program created a group of school districts that will practice effective workplace safety and claims management to achieve lower premiums for workers compensation coverage than they would individually. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can receive either a premium refund or premium assessment. The Program's third party administrator (TPA), Comp Management, Inc., provides administrative, cost control, and actuarial services to the Program. The cost of the TPA will be paid by each school district in proportion to its payroll to the total payroll of the group. The Educational Service Center paid \$2,485 in enrollment fees to the Program for fiscal year 2019 during fiscal year 2018 and \$2,510 for fiscal year 2020 during fiscal year 2019.

**Ohio School Plan**

The Educational Service Center participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by an eleven member Board of directors consisting of school district superintendents and treasurers. Hylant Administrative Services, LLC is the Administrator of the OSP and is responsible for providing underwriting, claims management, risk management, accounting, system support services, sales and marketing.

**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

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**Ohio School Benefits Cooperative**

The Educational Service Center participates in the Ohio School Benefits Cooperative, a claims servicing and group purchasing pool comprised of fifteen members. The Ohio School Benefits Cooperative (OSBC) is created and organized pursuant to and as authorized by Section 9.833 of the Ohio Revised Code. OSBC is governed by a nine member Board of Directors, all of whom must be Educational Service Center and/or educational service center administrators. The Muskingum Valley Educational Service Center serves as the fiscal agent for OSBC. OSBC is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to maximize benefits and/or reduce costs of medical, prescription drug, vision, dental, life and/or other group insurance coverages for their employees, and the eligible dependents and designated beneficiaries of such employees, and propose to have certain other eligible Educational Service Center or groups of Educational Service Centers join them for the same purposes. Participants pay a \$500 membership fee to OSBC. OSBC offers two options to participants.

Participants may enroll in the joint insurance purchasing program for medical, prescription drug, vision dental and/or life insurance. A second option is available for self-insured participants that provides for the purchase of stop loss insurance coverage through OSBC's third party administrator. The OSBC's business and affairs are conducted by a nine member Board of Directors consisting of Educational Service Center superintendents elected by the members of the OSBC. Medical Mutual is the Administrator of the OSBC. On July 1, 2006, the Educational Service Center elected to participate in the joint insurance purchasing program for medical, prescription drug, and dental coverage.

**NOTE 12 - CONTINGENCIES**

**Grants**

The Educational Service Center received financial assistance from federal and state 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2019.

**Litigation**

As of June 30, 2019, the Educational Service Center was not a party to any lawsuits.

**NOTE 13 – NONCOMPLIANCE**

Ohio Revised Code Section 117.38 and Ohio Administrative Code 117-2-03(B) provides that the Educational Service Center shall prepare its annual financial statements in accordance with accounting principles generally accepted in the United States of America. However, the Educational Service Center prepares its financial statements in accordance with standards established by the cash basis of accounting. The accompanying financial statements and notes omit assets, liabilities, fund equities and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Revised Code Section 117.38, the Educational Service Center can be fined and various other administrative remedies for its failure to file the required financial report.



**Licking County Educational Service Center, Ohio**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2019*

**NOTE 14 – FUND BALANCES**

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i>Restricted for:</i>			
Public Preschool	\$0	\$102,702	\$102,702
Advisory Services	0	34,256	34,256
<i>Total Restricted</i>	<u>0</u>	<u>136,958</u>	<u>136,958</u>
<i>Committed to:</i>			
Technology Services	13,000	0	13,000
Maintenance Services	8,586	0	8,586
Nursing Services	10,951	0	10,951
<i>Total Committed</i>	<u>32,537</u>	<u>0</u>	<u>32,537</u>
<i>Assigned to:</i>			
Public Preschool Program	91,879	0	91,879
Tuition Reimbursements	375	0	375
Professional Services	33,329	0	33,329
Maintenance and Supplies	1,046	0	1,046
Utilities	189	0	189
<i>Total Assigned</i>	<u>126,818</u>	<u>0</u>	<u>126,818</u>
<i>Unassigned:</i>	2,324,925	0	2,324,925
<i>Total Fund Balance</i>	<u><u>\$2,484,280</u></u>	<u><u>\$136,958</u></u>	<u><u>\$2,621,238</u></u>

**NOTE 15 - INTERFUND BALANCES**

Unpaid interfund cash advances at June 30, 2019, were as follows:

	<u>Advances Out</u>	<u>Advances In</u>
General Fund	<u>\$30,896</u>	<u>\$0</u>
<i>Nonmajor Special Revenue Fund:</i>		
Miscellaneous State Grants	0	30,723
Title III Grant Fund	0	173
<i>Total All Funds</i>	<u><u>\$30,896</u></u>	<u><u>\$30,896</u></u>

The interfund balances result from the provision of cash flow resources from the General Fund until the receipt of grant monies by the grant funds.

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# OHIO AUDITOR OF STATE KEITH FABER



88 East Broad Street, 5<sup>th</sup> Floor  
Columbus, Ohio 43215-3506  
(614) 466-3402 or (800) 443-9275  
CentralRegion@ohioauditor.gov

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

Licking County Educational Service Center  
Licking County  
145 North Quentin Road  
Newark, Ohio 43055

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Licking County Educational Service Center, Licking County, (the Educational Service Center) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements and have issued our report thereon dated February 4, 2021, wherein we noted the Educational Service Center uses a special purpose framework other than generally accepted accounting principles. We also noted the Educational Service Center adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities* and the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the Educational Service Center.

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

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

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

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

### ***Compliance and Other Matters***

As part of reasonably assuring whether the Educational Service Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the financial statement. 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 an instance of noncompliance or other matters we must report under Government Auditing Standards which is described in the accompanying schedule of findings as item 2020-001.

### **Educational Service Center's Response to Findings**

The Educational Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not subject the Educational Service Center's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 Educational Service Center's internal control or on compliance. This report is an integral part of an audit performed under Government Auditing Standards in considering the Educational Service Center's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Keith Faber  
Auditor of State  
Columbus, Ohio

February 4, 2021

LICKING COUNTY EDUCATIONAL SERVICE CENTER  
LICKING COUNTY

SCHEDULE OF FINDINGS  
JUNE 30, 2020 AND 2019

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

FINDING NUMBER 2020-001

**Noncompliance – Annual Financial Report**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office.

**Ohio Admin. Code § 117-2-03(B)** which further clarifies the requirement of Ohio Rev. Code § 117.38, requires the Educational Service Center to file its annual financial report which is prepared using generally accepted accounting principles (GAAP).

The Educational Service Center prepared financial statements that, although formatted similar to financial statements prescribed by the Governmental Accounting Standards Board, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the Educational Service Center may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Educational Service Center's ability to evaluate and monitor the overall financial condition of the Educational Service Center. To help provide the users with more meaningful financial statements, the Educational Service Center should prepare its annual financial statements according to generally accepted accounting principles.

**Officials' Response:** The Board of Education voted February 2013 to not report GAAP for an estimated savings of \$3,000. Given the size of our district, the cost to report on GAAP exceeds the benefits.

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Making a difference together

# Licking County Educational Service Center

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(740) 349-6084

## SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS JUNE 30, 2020 and 2019

Finding Number	Finding Summary	Status	Additional Information
2018-001	<p>Ohio Rev. Code §117.38 – Annual Financial Report not prepared in accordance with generally accepted accounting principles</p> <p>Finding initially issued during FY2013 audit.</p>	<p>Not corrected. Reissued as finding 2020-001</p>	<p>The Board of Education voted February 2013 to not report GAAP for an estimated savings of \$3,000. Given the size of the entity, the cost to report on GAAP exceeds the benefits.</p>

# OHIO AUDITOR OF STATE KEITH FABER



LICKING COUNTY EDUCATIONAL SERVICE CENTER

LICKING 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 3/16/2021

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)