

Lake County Educational Service Center



Basic Financial Statements

June 30, 2019

OHIO AUDITOR OF STATE
KEITH FABER



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Board of Education
Lake County Educational Service Center
8221 Auburn Road
Concord Township, Ohio 44077

We have reviewed the *Independent Auditor's Report* of Lake County Educational Service Center, Lake County, prepared by Plattenburg & Associates, Inc., for the audit period July 1, 2018 through June 30, 2019. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber
Auditor of State
Columbus, Ohio

December 18, 2019

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INDEPENDENT AUDITOR'S REPORT

Lake County Educational Service Center
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center (the Center) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 10, 2019

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

The discussion and analysis of the Lake County Educational Service Center's (Center) financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2019. Readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Center's performance.

Financial Highlights

Key financial highlights for fiscal year 2019 are as follows:

- Net position of governmental activities increased \$2,330,184 in fiscal year 2019.
- General revenues accounted for \$5,242,574 in revenue or 34% of total revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$10,030,885 or 66% of total revenues of \$15,273,459.
- The Center had \$12,943,275 in expenses related to governmental activities; \$10,030,885 of these disbursements were offset by program specific charges for services, grants or contributions. General receipts of \$5,242,574 were also used to provide for these programs.

Overview of the Financial Statements

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

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

Government-wide Financial Statements

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2019?" The Government-wide Financial Statements answers this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

Fund Financial Statements

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

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

Proprietary Fund - When services are provided to another department of the Center, the service is reported as an internal service fund. The Center has one internal service fund.

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

The Center as a Whole

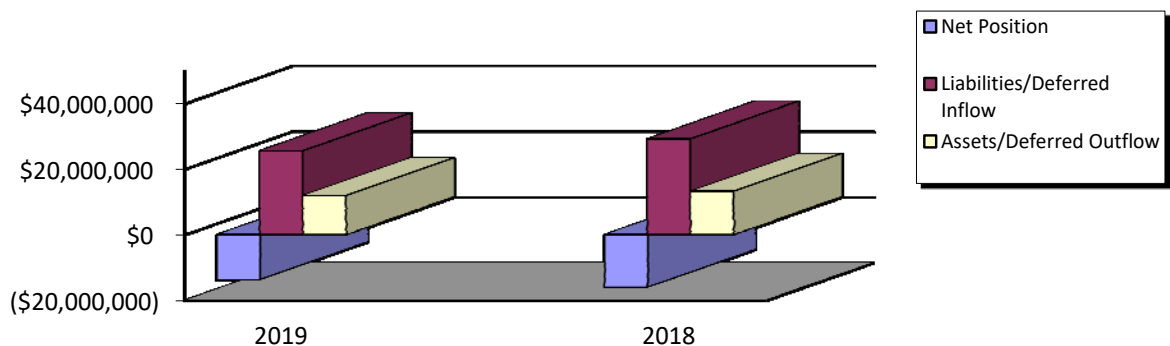
As stated previously, the Statement of Net Position looks at the Center as a whole. Table 1 provides a summary of the Center's net position for 2019 compared to 2018:

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

Table 1
Net Position

	Governmental Activities	
	2019	2018
Assets:		
Current and Other Assets	\$7,787,076	\$7,787,225
Net OPEB Asset	719,516	0
Capital Assets	130,472	155,803
Total Assets	8,637,064	7,943,028
Deferred Outflows of Resources:		
OPEB	170,004	200,867
Pension	3,144,067	5,110,143
Total Deferred Outflows of Resources	3,314,071	5,311,010
Liabilities:		
Other Liabilities	689,963	1,097,224
Long-Term Liabilities	14,952,179	21,822,766
Total Liabilities	15,642,142	22,919,990
Deferred Inflows of Resources:		
Property Taxes	4,585,629	4,547,250
OPEB	1,922,935	514,444
Pension	3,443,237	1,245,346
Total Deferred Inflows of Resources	9,951,801	6,307,040
Net Position:		
Net Investment in Capital Assets	130,472	155,803
Restricted	686,013	1,102,435
Unrestricted	(14,459,293)	(17,231,230)
Total Net Position	(\$13,642,808)	(\$15,972,992)



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

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2019, the Center's net position was (\$13,642,808).

A portion of the Center's net position, \$686,013 represents resources that are subject to external restriction on how they must be used. The external restriction will not affect the availability of fund resources for future use.

Total assets increased due to the inclusion of Net OPEB asset for 2019. Long-term liabilities decreased mainly due to a decrease in the net pension liability and net other post employment benefits liability.

Table 2 shows the changes in net position for the fiscal year. Refer to the following section for discussion of the reasons for the change in net position during the year.

Table 2
Changes in Net Position

	Governmental Activities	
	2019	2018
Revenues:		
Program Revenues		
Charges for Services and Sales	\$7,510,271	\$8,527,350
Operating Grants and Contributions	2,520,614	2,594,909
General Revenues:		
Property Taxes	4,799,855	5,908,264
Grants and Entitlements	356,787	467,836
Investment Earnings	66	148
Other	85,866	123,723
Total Revenues	<u>15,273,459</u>	<u>17,622,230</u>
Expenses:		
Instruction	1,706,067	1,118,843
Support Services:		
Pupil and Instructional Staff	3,567,882	1,519,226
School Administrative, General		
Administration and Fiscal	6,801,111	7,295,443
Operations and Maintenance	16,829	4,504
Pupil Transportation	158,944	101,361
Central	489,624	392,054
Operation of Non-Instructional Services	202,818	66,568
Extracurricular Activities	0	512
Total Expenses	<u>12,943,275</u>	<u>10,498,511</u>
Change in Net Position	2,330,184	7,123,719
Net Position - Beginning of Year	<u>(15,972,992)</u>	<u>(23,096,711)</u>
Net Position - End of Year	<u><u>(\$13,642,808)</u></u>	<u><u>(\$15,972,992)</u></u>

Lake County Educational Service Center, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

Governmental Activities

The Center revenues are mainly from charges for services and sales, and property taxes levied for special revenue purposes comprising 81% of the Center’s revenues for governmental activities.

Instruction comprises 13% of governmental program expenses. Support services were 85% of governmental program cash expenses. The remaining program expenses were 2%.

Program revenues decreased mainly due to a decrease in charges for services and sales. Total expenses increased mainly due to changes in net pension liability and the other postemployment benefits liability.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for government activities, the total cost of services and the net cost of services. These services are mainly supported by charges for services and sales.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Instruction	\$1,706,067	\$1,118,843	\$3,213,846	\$3,890,042
Support Services:				
Pupil and Instructional Staff	3,567,882	1,519,226	(407,397)	2,030,369
School Administrative, General Administration, and Fiscal	6,801,111	7,295,443	(5,456,441)	(5,498,192)
Operations and Maintenance	16,829	4,504	30,312	78,570
Pupil Transportation	158,944	101,361	(59,030)	(2,119)
Central	489,624	392,054	(163,172)	102,563
Operation of Non-Instructional Services	202,818	66,568	(81,457)	(7,700)
Extracurricular Activities	0	512	10,949	30,215
Total Expenses	<u>\$12,943,275</u>	<u>\$10,498,511</u>	<u>(\$2,912,390)</u>	<u>\$623,748</u>

The Center’s Funds

The Center has two major governmental funds: the General Fund and the Lake County Financing District Fund.

General Fund: Fund balance at June 30, 2019 was \$1,758,816. The net change in fund balance was \$741,352. The increase in fund balance was due to revenues exceeding expenditures during the year.

Lake County Financing District Fund: Fund balance at June 30, 2019 was \$375,370. The net change in fund balance was (\$417,138). The fund balance decreased due to a decrease in property tax revenues received from 2018 to 2019.

Lake County Educational Service Center, Ohio
Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2019
(Unaudited)

General Fund 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 of Education did not approve estimated revenues or adopt appropriations except for the Lake County Financing District fund, which is required to be presented since the fund collects property tax revenue.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2019, the Center had invested in equipment. Table 4 shows fiscal year 2019 balances compared to fiscal year 2018:

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

	Governmental Activities	
	2019	2018
Equipment	\$130,472	\$155,803
Total Net Capital Assets	<u>\$130,472</u>	<u>\$155,803</u>

Overall, capital assets decreased due to current year additions being less than fiscal year 2019 depreciation expense.

See Note 6 to the Basic Financial Statements for further details on the Center’s capital assets.

Debt

At June 30, 2019, the Center had no debt obligations outstanding.

Economic Outlook

The 2010-11 biennial budget (Am. Sub. HBI of the 128th General Assembly) established another new funding formula called the Evidence-Based Model (EBM). Am. Sub. HB 153 of the 129th General Assembly repealed the EBM and implemented a temporary funding formula, the Bridge Formula, for the 12-13 school year as a new funding formula was developed. The State revised the funding model in June 2013 and adopted HB 59, the FY 14 and FY 15 biennium budget which again changed our funding formula, but not our funding.

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

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

Contacting the Center's Financial Management

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

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Lake County Educational Service Center, Ohio
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets:	
Equity in Pooled Cash and Investments	\$2,153,906
Restricted Cash and Investments	4,388
Receivables (Net):	
Taxes	5,176,824
Accounts	219,286
Intergovernmental	231,259
Prepays	1,413
Net OPEB Asset	719,516
Depreciable Capital Assets, Net	<u>130,472</u>
 Total Assets	 <u>8,637,064</u>
Deferred Outflows of Resources:	
Pension	3,144,067
OPEB	<u>170,004</u>
 Total Deferred Outflows of Resources	 <u>3,314,071</u>
Liabilities:	
Accounts Payable	68,001
Accrued Wages and Benefits	621,962
Long-Term Liabilities:	
Due Within One Year	37,295
Due In More Than One Year	
Net Pension Liability	13,231,140
Net OPEB Liability	1,653,379
Other Amounts	<u>30,365</u>
 Total Liabilities	 <u>15,642,142</u>
Deferred Inflows of Resources:	
Property Taxes	4,585,629
Pension	3,443,237
OPEB	<u>1,922,935</u>
 Total Deferred Inflows of Resources	 <u>9,951,801</u>
Net Position:	
Net Investment in Capital Assets	130,472
Restricted for:	
State Grants	15,653
Federal Grants	32,260
Lake County Financing District	591,195
Other Purposes	46,905
Unrestricted	<u>(14,459,293)</u>
 Total Net Position	 <u><u>(\$13,642,808)</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Activities
For the Fiscal Year Ended June 30, 2019

	Expenses	Program Revenues		Net (Expense)
		Charges for Services and Sales	Operating Grants and Contributions	Revenue and Changes in Net Position Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$649,510	\$690,778	\$155,720	\$196,988
Special	925,374	3,585,767	0	2,660,393
Vocational	0	399,721	0	399,721
Other	131,183	8,394	79,533	(43,256)
Support Services:				
Pupil	2,353,687	1,697,755	4,006	(651,926)
Instructional Staff	1,214,195	153,982	1,304,742	244,529
General Administration	5,845,546	7,715	626,779	(5,211,052)
School Administration	771,678	392,234	157,468	(221,976)
Fiscal	183,887	19,085	141,389	(23,413)
Operations and Maintenance	16,829	47,141	0	30,312
Pupil Transportation	158,944	99,914	0	(59,030)
Central	489,624	275,475	50,977	(163,172)
Operation of Non-Instructional Services	202,818	121,361	0	(81,457)
Extracurricular Activities	0	10,949	0	10,949
Totals	\$12,943,275	\$7,510,271	\$2,520,614	(2,912,390)
General Revenues:				
Property Taxes Levied for:				
				4,799,855
				356,787
				66
				1,020
				84,846
				<u>5,242,574</u>
				Change in Net Position 2,330,184
				<u>Net Position - Beginning of Year (15,972,992)</u>
				<u>Net Position - End of Year (\$13,642,808)</u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Balance Sheet
Governmental Funds
June 30, 2019

	General	Lake County Financing District	Other Governmental Funds	Total Governmental Funds
Assets:				
Equity in Pooled Cash and Investments	\$2,030,613	\$0	\$77,033	\$2,107,646
Restricted Cash and Investments	4,388	0	0	4,388
Receivables (Net):				
Taxes	0	5,176,824	0	5,176,824
Accounts	214,132	0	4,802	218,934
Intergovernmental	0	0	231,259	231,259
Interfund	64,261	0	0	64,261
Prepays	1,147	0	266	1,413
Total Assets	<u>2,314,541</u>	<u>5,176,824</u>	<u>313,360</u>	<u>7,804,725</u>
Liabilities:				
Accounts Payable	68,001	0	0	68,001
Accrued Wages and Benefits	459,966	0	161,996	621,962
Compensated Absences	27,758	0	0	27,758
Interfund Payable	0	0	64,261	64,261
Total Liabilities	<u>555,725</u>	<u>0</u>	<u>226,257</u>	<u>781,982</u>
Deferred Inflows of Resources:				
Property Taxes	0	4,801,454	0	4,801,454
Grants and Other Taxes	0	0	16,498	16,498
Total Deferred Inflows of Resources	<u>0</u>	<u>4,801,454</u>	<u>16,498</u>	<u>4,817,952</u>
Fund Balances:				
Nonspendable	5,535	0	266	5,801
Restricted	0	375,370	84,690	460,060
Assigned	37,454	0	0	37,454
Unassigned	1,715,827	0	(14,351)	1,701,476
Total Fund Balances	<u>1,758,816</u>	<u>375,370</u>	<u>70,605</u>	<u>2,204,791</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$2,314,541</u>	<u>\$5,176,824</u>	<u>\$313,360</u>	<u>\$7,804,725</u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of Total Governmental Fund Balance to
 Net Position of Governmental Activities
 June 30, 2019

Total Governmental Fund Balance		\$2,204,791
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital assets used in the operation of Governmental Funds		130,472
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Delinquent Property Taxes	215,825	
Intergovernmental	<u>16,498</u>	
		232,323
An internal service fund is used by management to charge back costs to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
Internal Service Net Position		46,612
Some liabilities reported in the statement of net position do not require the use of current financial resources and, therefore, are not reported as liabilities in governmental funds.		
Compensated Absences		(39,902)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources related to pensions	3,144,067	
Deferred inflows of resources related to pensions	(3,443,237)	
Deferred outflows of resources related to OPEB	170,004	
Deferred inflows of resources related to OPEB	<u>(1,922,935)</u>	
		(2,052,101)
Long-term liabilities and net OPEB assets are not available to pay for current period expenditures and are not due and payable in the current period and, therefore, are not reported in the funds.		
Net OPEB Asset	719,516	
Net Pension Liability	(13,231,140)	
Net OPEB Liability	<u>(1,653,379)</u>	
		<u>(14,165,003)</u>
Net Position of Governmental Activities		<u><u>(\$13,642,808)</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended June 30, 2019

	General	Lake County Financing District	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property and Other Taxes	\$0	\$4,798,956	\$0	\$4,798,956
Tuition and Fees	3,831,628	0	0	3,831,628
Investment Earnings	66	0	0	66
Intergovernmental	356,787	627,914	1,940,799	2,925,500
Extracurricular Activities	10,949	0	0	10,949
Contract Services	3,662,870	0	0	3,662,870
Other Revenues	90,691	0	0	90,691
Total Revenues	7,952,991	5,426,870	1,940,799	15,320,660
Expenditures:				
Current:				
Instruction:				
Regular	660,550	0	140,035	800,585
Special	1,202,202	0	0	1,202,202
Other	18,738	0	118,592	137,330
Support Services:				
Pupil	3,180,821	0	5,200	3,186,021
Instructional Staff	272,649	0	1,281,763	1,554,412
General Administration	14,954	5,833,440	0	5,848,394
School Administration	792,192	0	151,317	943,509
Fiscal	38,361	10,568	134,958	183,887
Operations and Maintenance	25,669	0	0	25,669
Pupil Transportation	190,236	0	0	190,236
Central	569,465	0	49,864	619,329
Operation of Non-Instructional Services	245,802	0	0	245,802
Total Expenditures	7,211,639	5,844,008	1,881,729	14,937,376
Net Change in Fund Balance	741,352	(417,138)	59,070	383,284
Fund Balance - Beginning of Year	1,017,464	792,508	11,535	1,821,507
Fund Balance - End of Year	\$1,758,816	\$375,370	\$70,605	\$2,204,791

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
 Reconciliation of the Statement of Revenues, Expenditures, and Changes
 in Fund Balance of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2019

Net Change in Fund Balance - Total Governmental Funds \$383,284

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

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

Depreciation Expense (25,331)

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

Pension Contributions	822,053	
Pension Expense	(466,197)	
OPEB Contributions	37,878	
OPEB Expense	<u>1,606,161</u>	
		1,999,895

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

Delinquent Property Taxes	899	
Intergovernmental	<u>(48,100)</u>	
		(47,201)

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

Compensated Absences 14,645

The internal service fund used by management to charge back costs to individual funds is not reported in the entity-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.

Change in Net Position - Internal Service Funds 4,892

Change in Net Position of Governmental Activities \$2,330,184

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Net Position
Proprietary Fund
June 30, 2019

	Governmental Activities
	Internal Service Fund
Current Assets:	
Equity in Pooled Cash and Investments	\$46,260
Receivables (Net):	
Accounts	352
Total Assets	<u>46,612</u>
Liabilities:	
Accounts Payable	0
Total Liabilities	<u>0</u>
Net Position:	
Unrestricted	<u>46,612</u>
Total Net Position	<u><u>\$46,612</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Fiscal Year Ended June 30, 2019

	Governmental Activities Internal Service Fund
Operating Revenues:	
Other Revenues	\$60,966
Total Operating Revenues	60,966
Operating Expenses:	
Personal Services	6,911
Materials and Supplies	3,248
Purchased Services	45,915
Total Operating Expenses	56,074
Change in Net Position	4,892
Net Position - Beginning of Year	41,720
Net Position - End of Year	\$46,612

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2019

	Governmental Activities Internal Service Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$60,716
Cash Payments to Employees	(6,948)
Cash Payments to Suppliers	<u>(52,199)</u>
Net Cash Provided (Used) by Operating Activities	<u>1,569</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,569
Cash and Cash Equivalents - Beginning of Year	<u>44,691</u>
Cash and Cash Equivalents - End of Year	<u><u>46,260</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income (Loss)	4,892
Changes in Assets & Liabilities:	
(Increase) Decrease in Receivables	(287)
Increase (Decrease) in Payables	<u>(3,036)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$1,569</u></u>

See accompanying notes to the basic financial statements.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 1 - Description of the Center and Reporting Entity

The Lake County Educational Service Center (the "Center") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Center is a local county school district as defined by Section 3311.05 of the Ohio Revised Code. The Center operates under a five member elected Board of Education and is responsible for the provision of public education to residents of the Center.

The Center is located in Lake County. The Center serves five local school districts: Riverside Local School District, Painesville City Local School District, Kirtland Local School District, Madison Local School District and Perry Local School District. The Center also serves two city school districts, Wickliffe City School District and Willoughby-East Lake City School District as well as one exempted school district, Fairport Harbor Exempted Village School District.

The Center employed 150 certificated employees and 56 non-certificated employees.

Financial Reporting Entity

The Center adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61. The financial statements include all the organizations, activities, functions and component units for which the Center (Primary Government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (1) the Center's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Center.

On this basis, the financial statements of the Lake County School Financing District have been included in the accompanying financial statements as a blended component unit. The Financing District is legally separate, but governed by the same board; therefore, the Center has the ability to impose its will over the Financing District. The Center acts as the fiscal agent for the Lake County School Financing District; however the Financing District is reported as a special revenue fund.

The Center is associated with two jointly governed organizations, one claims servicing pool, and one insurance purchasing pool. These organizations are:

Jointly Governed Organizations:

Lake Geauga Computer Association
Ohio Schools Council Association

Claims Servicing Pool:

Lake County Schools Council of Governments' Health Care Benefits Program

Insurance Purchasing Pool:

Ohio School Boards Association Workers' Compensation GRRP

Information about these organizations is discussed in the notes to the basic financial statements.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the Center have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Measurement Focus

Government-wide Financial Statements

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

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

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

Fund Financial Statements

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

Like the government-wide statements, all proprietary fund types are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net position. The statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Center finances and meets the cash flow needs of its proprietary activities.

Fund Accounting

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Governmental Funds

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

General Fund - The general fund accounts for all financial resources except for restricted resources requiring a separate accounting. The general fund balance is available for any purpose provided it is disbursed or transferred according to Ohio law.

Lake County Financing District – The Lake County Financing District Fund was created for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

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

Proprietary Fund

Certain Center funds operate similar to business enterprises, where user charges (i.e. charges for services) provide significant resources for the activity. Proprietary funds are classified as either enterprise funds or internal service funds. The Center does not have any enterprise funds.

Internal Service Fund – An internal service fund accounts for the financing of services provided by one department or agency to other Center departments or agencies or to other governments, on a cost reimbursement basis. The Center's internal service fund accounts for teachers' training for special education teachers, and fingerprinting for the local school districts on a cost reimbursement basis.

Fiduciary Funds

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary funds also use the accrual basis of accounting. Differences in the actual and the modified accrual basis of

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

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

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

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

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Center, deferred inflows of resources may include property taxes, OPEB, grants and other taxes, and pension. Property taxes represent amounts for which there is an enforceable legal claim as of June 30, 2019, but which were levied to finance year 2020 operations. These amounts have been recorded as deferred inflows on both the government-wide statement of net position and the governmental fund financial statements. Grants and other taxes have been recorded as deferred inflows on the governmental fund financial statements. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. For more pension and OPEB related information, see Notes 8 and 9.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Expenses/Expenditures

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

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

Equity in Pooled Cash and Investments

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

During fiscal year 2019, investments were limited to STAR Ohio. All investments of the Center had a maturity of one year or less. Investments are reported at fair value, which is based on quoted market prices.

STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

There were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, 24 hours advance notice is appreciated for deposits and withdrawals of \$25 million or more. STAR Ohio reserves the right to limit the transaction to \$100 million per day, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the Center has, by resolution, identified the funds to receive an allocation of interest. Interest revenue during 2019 amounted to \$66 in the General fund.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2019 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and expenditure/expense is reported in the year in which services are consumed.

Capital Assets

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

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their acquisition values as of the

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

date received. The Center maintains a capitalization threshold of \$2,500. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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

<u>Description</u>	<u>Estimated Lives</u>
Equipment	3 – 10 years

Pensions/Other Postemployment Benefits (OPEB)

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

Compensated Absences

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

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

The compensated absences liability is recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. Compensated absences are reported in governmental funds and estimated on the Center's past experience of making termination payments.

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

<u>Vacation</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	Not eligible unless stated in contract	Per contract	10-25 days depending on length of service pending on length of service
Maximum Accumulation	Not eligible unless stated in contract	Non-cumulative unless stated in contract	10 days

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Vested	Not applicable or as earned	As earned	As earned
Termination Entitlement	Not applicable or paid upon termination	Paid upon termination or separation	Paid upon termination or separation
<u>Sick Leave</u>	<u>Certified</u>	<u>Administrators</u>	<u>Non-Certificated</u>
How Earned	1-1/4 days per month of employment (15 days per year)	1 ¼ days per month of employment (15 days per year)	1 ¼ days per month of employment (15 days per year)
Maximum Accumulation	The number of days worked in the year based based on contract	The number of days worked in the year based on contract	The number of days worked in the year based on contract
Vested	As earned	As earned	As earned
Termination Entitlement	120 days	120 days	120 days

Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. The employer contributions include portions for pension benefits and for postretirement health care benefits.

Net Position

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

The Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Of the Center's \$686,013 in restricted net position, none were restricted by enabling legislation.

Fund Balance

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

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

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

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

Interfund Activity

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

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

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

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Center, these revenues are sales for teacher’s training and finger printing. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. Any revenue and expenses not meeting the definition of operating are reported as non-operating.

Budgetary Process

Except for the Lake County Financing District fund, which is required to be presented since it collects property tax revenue, no budgetary information is presented because the Board of Education did not approve estimated revenues or adopt appropriations. Under Ohio law, Educational Service Centers are not required to prepare a budget.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Estimates

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

Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors or laws of the other governments, or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the General Fund represent unclaimed monies.

Note 3 - Equity in Pooled Cash and Investments

State statute requires the classification of monies held by the Center into three categories:

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

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

Interim Monies – Those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies held by the Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States.
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

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

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. As of June 30, 2019, \$1,947,562 of the Center's bank balance of \$2,197,562 was exposed to custodial credit risk because it was uninsured and collateralized.

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Investments

As of June 30, 2019, the Center had the following investments:

	<u>Value</u>	<u>Fair Value Hierarchy</u>	<u>Weighted Average Maturity (Years)</u>
STAR Ohio	\$2,852	N/A	0.12

The Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Inputs to the valuation techniques used in fair the measurement for Level 2 include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means. Level 3 inputs are significant unobservable inputs. The above table identifies the Center’s recurring fair value measurements as of June 30, 2019. STAR Ohio is reported at its share price (Net Asset value per share).

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

Credit Risk – It is the Center’s policy to limit its investments that are not obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government to investments which have a credit quality rating of the top 2 ratings issued by nationally recognized statistical rating organizations. Investments in STAR Ohio were rated AAAM by Standard & Poor’s.

Concentration of Credit Risk – The Center’s investment policy allows investments in Federal Agencies or Instrumentalities. At year end, the Center’s allocations of investments were as follows: STAR Ohio (100%).

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

Note 4 - Lake County School Financing District

The Lake County Educational Service Center has, by a resolution adopted February 6, 1990, pursuant to Section 3311.50 of the Revised Code, created a county school financing district known as the Lake County School Financing District (the "Financing District") for the purpose of levying taxes for the provision of the following specified educational programs and services by the school districts that are part of the Financing District: the provision of necessary personnel, materials, supplies and transportation for instruction in language arts, social studies, mathematics, fine and practical arts, health and physical education, science and business education.

The Lake County Educational Service Center acts as the taxing authority of the Financing District pursuant to Section 3311.50 of the Revised Code. The Financing District receives settlements of taxes levied and distributes within ten days to each of the Member Districts each of such Member District's proportionate share of that tax settlement. Each Member District's proportionate share is a fraction, the numerator being the Member District's total pupil population and the denominator being the aggregate pupil population of all Member Districts as of that date.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 5 – Receivables

Receivables at June 30, 2019, consisted of taxes, accounts, intergovernmental, and interfund. All receivables are considered collectible in full, due to the stable condition of State programs, and the current year guarantee of federal funds.

Note 6 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Capital Assets, Being Depreciated</i>				
Equipment	\$339,278	\$0	\$0	\$339,278
Totals at Historical Cost	<u>339,278</u>	<u>0</u>	<u>0</u>	<u>339,278</u>
Less Accumulated Depreciation:				
Equipment	<u>183,475</u>	<u>25,331</u>	<u>0</u>	<u>208,806</u>
Total Accumulated Depreciation	<u>183,475</u>	<u>25,331</u>	<u>0</u>	<u>208,806</u>
Governmental Activities Capital Assets, Net	<u>\$155,803</u>	<u>(\$25,331)</u>	<u>\$0</u>	<u>\$130,472</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$594
Other Instruction	415
Support Services:	
Instructional Staff	2,100
School Administration	3,739
Pupil Transportation	16,305
Central	2,178
Total Depreciation Expense	<u>\$25,331</u>

Note 7 - Long-Term Liabilities

Compensated Absences will be paid from the fund from which the employee is paid.

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Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

	Beginning Balance	Additions	Reductions	Ending Balance	Due In One Year
Governmental Activities:					
Compensated Absences	\$54,547	\$21,495	\$8,382	\$67,660	\$37,295
Net Pension Liability:					
STRS	13,937,374	0	4,091,974	9,845,400	0
SERS	3,813,588	0	427,848	3,385,740	0
Subtotal Net Pension Liability	17,750,962	0	4,519,822	13,231,140	0
Net OPEB Liability:					
STRS	2,289,118	0	2,289,118	0 (a)	0
SERS	1,728,139	0	74,760	1,653,379	0
Subtotal Net OPEB Liability	4,017,257	0	2,363,878	1,653,379	0
Total Long-Term Obligations	<u>\$21,822,766</u>	<u>\$21,495</u>	<u>\$6,892,082</u>	<u>\$14,952,179</u>	<u>\$37,295</u>

(a) OPEB for STRS has a Net OPEB asset in the amount of \$719,516 as of June 30, 2019.

Note 8 - Defined Benefit Pension Plans

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

Net Pension Liability/Net OPEB Liability (Asset)

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

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

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

GASB Statements No. 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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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 proportionate share of each plan’s unfunded benefits is presented as a long-term net pension/OPEB liability (asset) on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in accrued wages and benefits on both the accrual and modified accrual bases of accounting.

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

Plan Description - School Employees Retirement System (SERS)

Plan Description

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 under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

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

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Funding Policy

Plan members are required to contribute 10 percent of their annual covered salary and the 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 contractually required contribution to SERS was \$228,804 for fiscal year 2019. Of this amount \$5,478 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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.

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

The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of living increases are not affected by this change. 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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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 contractually required contribution to STRS was \$593,249 for fiscal year 2019. Of this amount \$36,136 is reported as accrued wages and benefits.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$3,385,740	\$9,845,400	\$13,231,140
Proportion of the Net Pension Liability:			
Current Measurement Date	0.05911700%	0.04477674%	
Prior Measurement Date	<u>0.06382810%</u>	<u>0.05867080%</u>	
Change in Proportionate Share	<u>-0.00471110%</u>	<u>-0.01389406%</u>	
Pension Expense	\$280,210	\$185,987	\$466,197

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

At June 30, 2019, reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	SERS	STRS	Total
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$185,687	\$227,261	\$412,948
Changes of assumptions	76,457	1,744,791	1,821,248
Changes in employer proportionate share of net pension liability	76,980	10,838	87,818
Contributions subsequent to the measurement date	228,804	593,249	822,053
Total Deferred Outflows of Resources	<u>\$567,928</u>	<u>\$2,576,139</u>	<u>\$3,144,067</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$0	\$64,296	\$64,296
Net difference between projected and actual earnings on pension plan investments	93,808	597,015	690,823
Changes in employer proportionate share of net pension liability	154,902	2,533,216	2,688,118
Total Deferred Inflows of Resources	<u>\$248,710</u>	<u>\$3,194,527</u>	<u>\$3,443,237</u>

\$822,053 reported as deferred outflows of resources related to pension resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2020	\$205,782	\$130,849	\$336,631
2021	24,513	(156,665)	(132,152)
2022	(111,111)	(540,742)	(651,853)
2023	(28,770)	(645,079)	(673,849)
Total	<u>\$90,414</u>	<u>(\$1,211,637)</u>	<u>(\$1,121,223)</u>

Actuarial Assumptions - SERS

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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:

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

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

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

rate of return (7.50 percent). Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

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

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

	1% Decrease 6.50%	Current Discount Rate 7.50%	1% Increase 8.50%
Proportionate share of the net pension liability	\$4,769,070	\$3,385,740	\$2,225,910

Assumption and Benefit Changes Since the Prior Measurement Date

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

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%
Projected Salary Increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Discount Rate of Return	7.45%
Payroll Increases	3.00%
Cost-of-Living Adjustments (COLA)	0%, 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 Ohio’s investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

*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 the rates 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 payments to determine the total pension liability as of June 30, 2018.

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

The following table represents the net pension liability as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what 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 discount rate:

	1% Decrease 6.45%	Current Discount Rate 7.45%	1% Increase 8.45%
Proportionate share of the net pension liability	\$14,377,910	\$9,845,400	\$6,009,245

Assumption and Benefit Changes since the Prior Measurement Date

There were no changes in assumptions or benefit terms since the prior measurement date.

Note 9 - Defined Benefit OPEB Plans

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Plan Description - School Employees Retirement System (SERS)

Health Care Plan Description

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

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

Funding Policy

State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 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 Center's surcharge obligation was \$29,404.

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 contractually required contribution to SERS was \$37,878 for fiscal year 2019. Of this amount \$29,404 is reported as accrued wages and benefits.

Plan Description - State Teachers Retirement System (STRS)

Plan Description

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

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$1,653,379	\$0	\$1,653,379
Proportionate Share of the Net OPEB (Asset)	0	(719,516)	(719,516)
Proportion of the Net OPEB Liability/Asset:			
Current Measurement Date	0.05959690%	0.04477674%	
Prior Measurement Date	0.06439300%	0.05867080%	
Change in Proportionate Share	<u>-0.00479610%</u>	<u>-0.01389406%</u>	
OPEB Expense	\$47,580	(\$1,653,741)	(\$1,606,161)

At June 30, 2019, reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience	\$26,989	\$84,041	\$111,030
Changes in employer proportionate share of net OPEB liability	21,096	0	21,096
Contributions subsequent to the measurement date	<u>37,878</u>	<u>0</u>	<u>37,878</u>
Total Deferred Outflows of Resources	<u>\$85,963</u>	<u>\$84,041</u>	<u>\$170,004</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$0	\$41,921	\$41,921
Changes of assumptions	148,544	980,398	1,128,942
Net difference between projected and actual earnings on OPEB plan investments	2,481	82,199	84,680
Changes in employer proportionate share of net OPEB liability	<u>119,230</u>	<u>548,162</u>	<u>667,392</u>
Total Deferred Inflows of Resources	<u>\$270,255</u>	<u>\$1,652,680</u>	<u>\$1,922,935</u>

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

\$37,878 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability (adjustment to net OPEB asset) in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year			
Ending June 30:	SERS	STRS	Total
2020	(\$70,507)	(\$275,834)	(\$346,341)
2021	(60,186)	(275,833)	(336,019)
2022	(27,501)	(275,833)	(303,334)
2023	(26,445)	(257,165)	(283,610)
2024	(26,618)	(250,614)	(277,232)
Thereafter	(10,913)	(233,360)	(244,273)
Total	<u>(\$222,170)</u>	<u>(\$1,568,639)</u>	<u>(\$1,790,809)</u>

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2018, are presented below:

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Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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

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

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

Lake 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 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 percent) and higher (4.70 percent) than the current discount rate (3.70 percent). 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 percent decreasing to 3.75 percent) and higher (8.25 percent decreasing to 5.75 percent) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Proportionate share of the net OPEB liability	\$2,006,245	\$1,653,379	\$1,373,975
	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%)
Proportionate share of the net OPEB liability	\$1,333,974	\$1,653,379	\$2,076,329

Assumption and Benefit Changes since the Prior Measurement Date

The following changes in key methods and assumptions as presented below:

- (1) Discount Rate:

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

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

Prior Measurement Date	3.63%
Measurement Date	3.70%

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

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:

Projected Salary Increases	12.50% at age 20 to 2.50% at age 65
Investment Rate of Return	7.45%, net of investment expenses, including inflation
Payroll Increases	3%
Discount Rate of Return	7.45%

Health Care Cost Trends:

Medical:

Pre-Medicare	6% initial, 4% ultimate
Medicare	5% initial, 4% ultimate

Prescription Drug:

Pre-Medicare	8% initial, 4% ultimate
Medicare	(5.23%) initial, 4% ultimate

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

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

Actuarial assumptions used in the June 30, 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:

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

*10 year annualized geometric nominal returns, which includes 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 actual rate of return, without net value added by management.

Lake 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 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 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 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 (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Proportionate share of the net OPEB (asset)	(\$616,693)	(\$719,516)	(\$805,935)
	1% Decrease	Current Trend Rate	1% Increase
Proportionate share of the net OPEB (asset)	(\$801,056)	(\$719,516)	(\$636,706)

Assumption and Benefit Changes 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.

The subsidy multiplier for non-Medicare benefit recipients was increased from 1.900 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.

Note 10 - Contingent Liabilities

Grants

The Center receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Center at June 30, 2019.

Note 11 - Jointly Governed Organizations

The Lake Geauga Computer Association is a jointly governed organization consisting of 19 school districts in Lake, Geauga, Medina and Cuyahoga Counties. This jointly governed organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The executive committee consists of the member elected superintendents from participating school districts. The degree of control exercised by any participating school Center is limited to its voting rights as a general member of the network. The assembly exercises total control over the operation of the consortium including budgeting, appropriating, contracting, and designation management. All the consortium revenues are generated from charges for services and State funding. Financial information can be obtained from Lake Geauga Computer Association, 8221 Auburn Road, Painesville, OH 44077.

The Ohio Schools Council Association (Council) is a jointly governed organization among 199 school districts. The jointly governed organization was formed to bring quality products and services at the lowest possible cost to the member districts. The Council's Board consists of seven superintendents of the participating districts whose term rotates every year. The degree of control exercised by any school Center is limited to its representation on the Board. Financial information can be obtained by contacting the Executive Secretary of the Ohio Schools Council at 6393 Oak Tree Boulevard, Independence, OH 44131.

Note 12 - Claims Servicing Pool

Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program – The Center participates in Lake County Council of Governments Health Care Benefits Program (HCBP) Self Insurance Program, a claims servicing pool, comprised of eleven members. Each member pays an administrative fee to the pool. The Plan's business and affairs are conducted by a three member Board of Directors elected from the HCBP's assembly.

Note 13 – Insurance Purchasing Pool

The Center participates in the Ohio School Boards Association Workers' Compensation Group Retrospective Rating Program (GRRP), an insurance rating pool. The intent of the GRRP is to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the GRRP. The workers' compensation experience of the participating school districts and centers is calculated as one experience and a common premium rate is applied to all school districts and centers in the GRRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRRP.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRRP. Participation in the GRRP is limited to school districts and centers that can meet the GRRP's selection criteria.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 14 – Revenues

The Lake County Educational Service Center is funded by the State Board of Education from State funds in the amount of \$33.05 times the average daily membership of the Service Center. Average daily membership includes the total student counts of all local school districts within the Service Center’s territory and all the Service Center’s client school districts.

Due to provisions in the State budget bill, the per pupil funding in the permanent section of law did not apply to fiscal years 2014, 2015 and 2016. Instead, the ESC received a percentage of the funding they received in previous years. For fiscal year 2019, the ESC received 76 percent of the state subsidy per pupil amount.

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

The Lake County School Financing District’s source of revenue is derived from property taxes and related state reimbursements. The taxes go to the Lake County School Financing District and are then allocated and sent to the applicable school districts.

Note 15 - Interfund Transactions

Interfund transactions at June 30, 2019, consisted of the following interfund receivables and interfund payables:

	Interfund	
	<u>Receivable</u>	<u>Payable</u>
General Fund	\$64,261	\$0
Other Governmental Funds	<u>0</u>	<u>64,261</u>
Total All Funds	<u><u>\$64,261</u></u>	<u><u>\$64,261</u></u>

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

Note 16 – Accountability

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

<u>Fund</u>	<u>Deficit</u>
Other Governmental Funds:	
Public Preschool	\$6,608
Safe Drug Free	7,715

The general fund is liable for any deficit in any funds and will provide operating transfers when cash is required, not when expenditures are incurred.

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

Note 17 – Fund Balances

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

Fund Balances	General	Lake County Financing District	Other Governmental Funds	Total
Nonspendable:				
Unclaimed Monies	\$4,388	\$0	\$0	\$4,388
Prepays	1,147	0	266	1,413
Total Nonspendable	5,535	0	266	5,801
Restricted for:				
Progress Project	0	0	475	475
IDEA	0	0	31,598	31,598
Other Grants	0	0	46,905	46,905
Science Center	0	0	5,712	5,712
Lake County Financing District	0	375,370	0	375,370
Total Restricted	0	375,370	84,690	460,060
Assigned to:				
Public School Support	37,454	0	0	37,454
Total Assigned	37,454	0	0	37,454
Unassigned (Deficit)	1,715,827	0	(14,351)	1,701,476
Total Fund Balance	\$1,758,816	\$375,370	\$70,605	\$2,204,791

Note 18 – Implementation of New Accounting Principles

For the fiscal year ended June 30, 2019, the following have been implemented Governmental Accounting Standards Board (GASB) Statement No. 83, *Certain Asset Retirement Obligations* and GASB No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*.

GASB Statement No. 83 sets out to address the accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The implementation of GASB Statement No. 83 did not have an effect on the financial statements.

GASB Statement No. 88 sets out to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more

Lake County Educational Service Center, Ohio
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2019

payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. If applicable, GASB Statement No. 88 has been implemented in the notes to financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total Pension Liability
2019	0.05911700%	\$3,385,740	\$1,926,719	175.73%	71.36%
2018	0.06382810%	3,813,588	2,115,807	180.24%	69.50%
2017	0.06234530%	4,563,101	1,895,886	240.68%	62.98%
2016	0.05993030%	3,419,681	2,124,150	160.99%	69.16%
2015	0.05594700%	2,831,446	1,642,121	172.43%	71.70%
2014	0.05594700%	3,328,896	1,549,045	214.90%	65.52%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2019	\$228,804	(\$228,804)	\$0	\$1,694,844	13.50%
2018	260,107	(260,107)	0	1,926,719	13.50%
2017	296,213	(296,213)	0	2,115,807	14.00%
2016	265,424	(265,424)	0	1,895,886	14.00%
2015	279,963	(279,963)	0	2,124,150	13.18%
2014	227,598	(227,598)	0	1,642,121	13.86%
2013	252,215	(252,215)	0	1,549,045	16.28%
2012	211,926	(211,926)	0	1,621,593	13.07%
2011	259,107	(259,107)	0	1,712,027	15.13%
2010	250,891	(250,891)	0	1,640,151	15.30%

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net Pension Liability	Center's Proportionate Share of the Net Pension Liability	Center's Covered Payroll	Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total Pension Liability
2019	0.04477674%	\$9,845,400	\$4,896,007	201.09%	77.30%
2018	0.05867080%	13,937,374	6,430,557	216.74%	75.30%
2017	0.06005933%	20,103,668	6,379,150	315.15%	66.80%
2016	0.06199267%	17,132,961	6,467,900	264.89%	72.10%
2015	0.06180313%	15,032,660	6,800,308	221.06%	74.70%
2014	0.06180313%	17,887,060	6,817,759	262.36%	69.30%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2019	\$593,249	(\$593,249)	\$0	\$4,237,493	14.00%
2018	685,441	(685,441)	0	4,896,007	14.00%
2017	900,278	(900,278)	0	6,430,557	14.00%
2016	893,081	(893,081)	0	6,379,150	14.00%
2015	905,506	(905,506)	0	6,467,900	14.00%
2014	884,040	(884,040)	0	6,800,308	13.00%
2013	1,068,756	(1,068,756)	0	6,817,759	15.68%
2012	962,923	(962,923)	0	6,631,662	14.52%
2011	950,720	(950,720)	0	6,665,189	14.26%
2010	911,991	(911,991)	0	6,430,711	14.18%

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB Liability	Center's Proportionate Share of the Net OPEB Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total OPEB Liability
2019	0.05959690%	\$1,653,379	\$1,926,719	85.81%	13.57%
2018	0.06439300%	1,728,139	2,115,807	81.68%	12.46%
2017	0.06281186%	1,790,370	1,895,886	94.43%	11.49%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution (2)	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2019	\$37,878	(\$37,878)	\$0	\$1,694,844	2.23%
2018	35,643	(35,643)	0	1,926,719	1.85%
2017	33,348	(33,348)	0	2,115,807	1.58%
2016	30,201	(30,201)	0	1,895,886	1.59%

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

(2) Includes surcharge.

See accompanying notes to the required supplementary information.

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

Year	Center's Proportion of the Net OPEB (Asset)/Liability	Center's Proportionate Share of the Net OPEB (Asset)/Liability	Center's Covered Payroll	Center's Proportionate Share of the Net OPEB (Asset)/Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position Percentage as a of the Total OPEB (Asset)/Liability
2019	0.04477674%	(\$719,516)	\$4,896,007	(14.70%)	176.00%
2018	0.05867080%	2,289,118	6,430,557	35.60%	47.10%
2017	0.06005933%	3,211,989	6,379,150	50.35%	37.30%

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

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

See accompanying notes to the required supplementary information.

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

Year	Center's Contractually Required Contribution	Center's Contributions in Relation to the Contractually Required Contributions	Center's Contribution Deficiency (Excess)	Center's Covered Payroll	Center's Contributions as a Percentage of Covered Payroll
2019	\$0	\$0	\$0	\$3,820,471	0.00%
2018	0	0	0	4,896,007	0.00%
2017	0	0	0	6,430,557	0.00%
2016	0	0	0	6,379,150	0.00%

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

See accompanying notes to the required supplementary information.

Lake County Educational Service Center , Ohio
 Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budget and Actual (Non-GAAP Budgetary Basis)
 For the Fiscal Year Ended June 30, 2019

	Lake County Financing District Fund			
	Original Budget	Final Budget	Actual	Variance from Final Budget
Revenues:				
Taxes	\$5,447,454	\$5,216,094	\$5,216,094	\$0
Intergovernmental	655,765	627,914	627,914	0
Total Revenues	6,103,219	5,844,008	5,844,008	0
Expenditures:				
General Administration	6,092,182	5,833,440	5,833,440	0
Fiscal	11,037	10,568	10,568	0
Total Expenditures	6,103,219	5,844,008	5,844,008	0
Net Change in Fund Balance	0	0	0	0
Fund Balance - Beginning of Year (includes prior year encumbrances appropriated)	0	0	0	0
Fund Balance - End of Year	\$0	\$0	\$0	\$0

See accompanying notes to the required supplementary information.

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2019

Note 1 – Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education.

The budgetary process described below applies specifically to the Lake County Educational Service Center and is not applicable to the Lake County School Financing District Fund.

The Center has an annual appropriation for the funds of the Lake County Educational Service Center and the Treasurer uses it to set annual limits on expenditures plus encumbrances at the fund level. The appropriation is subject to changes throughout the year with the restriction that appropriations may not exceed resources by fund. The budget is employed as a management control device during the year for all funds.

The budget process described below applies to the Lake County Financing District Fund of the Lake County Educational Service Center.

Based on the requirements of Chapter 5705, Revised Code, the budgetary process described below applies specifically to the Lake County School Financing District as a special revenue fund and is not applicable to the Lake County Educational Service Center.

A budget of estimated cash receipts and disbursements is submitted to the county auditor, as secretary of the county budget commission, by January 20 of each year, for the period July 1 to June 30 fiscal year.

The county budget commission certifies its actions to the Center by March 1. As part of this certification, the Center receives the official certificate of estimated resources, which states the projected receipts of each fund. On or about July 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to June 30, the Center must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

By the June Board meeting, the temporary annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which are the legal levels of budgetary control. (State statute permits a temporary appropriation to be effective until no later than October 1 of each year.) Resolution appropriations by fund must be within the estimated resources as approved by the Board and the total of expenditures and encumbrances may not exceed the appropriation totals. Any revisions that alter appropriations within a fund must be approved by the Board of Education.

Appropriation amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. The Board legally enacted all supplemental appropriations during the fiscal year.

Unencumbered appropriations lapse at year end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2019

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control.

Net Change in Fund Balances

	<u>Lake County Financing District</u>
GAAP Basis	(\$417,138)
Revenue Accruals	<u>417,138</u>
Budget Basis	<u><u>\$0</u></u>

Note 2 - Net Pension Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

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

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

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

Changes in Assumptions:

2018-2019: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for these fiscal years.

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

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

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

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2019

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

2019: There were no changes in benefit terms from the amounts reported for this fiscal year.

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

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

Changes in Assumptions:

2019: There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for this fiscal year.

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

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

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

Note 3 - Net OPEB (Asset)/Liability

School Employees Retirement System (SERS)

Changes in Benefit Terms:

2017-2019: There were no changes in benefit terms from the amounts reported for these fiscal years.

Changes in Assumptions:

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

- (1) Discount Rate:

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

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

Prior Measurement Date	3.63%
Measurement Date	3.70%

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2019

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

- (1) Discount Rate:

Fiscal Year 2018	3.63%
Fiscal Year 2017	2.98%
- (2) Municipal Bond Index Rate:

Fiscal Year 2018	3.56%
Fiscal Year 2017	2.92%
- (3) Single Equivalent Interest Rate, net of plan investment expense, including price inflation:

Fiscal Year 2018	3.63%
Fiscal Year 2017	2.98%

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

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

State Teachers Retirement System (STRS)

Changes in Benefit Terms:

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

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

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

Changes in Assumptions:

2019: The discount rate was increased from the blended rate of 4.13% to the long-term expected rate of return of 7.45% based on the methodology defined under GASB Statement No. 74, Financial Reporting

Lake County Educational Service Center, Ohio
Notes to the Required Supplementary Information
For The Fiscal Year Ended June, 30, 2019

for Postemployment Benefit Plans Other Than Pension Plans (OPEB). Valuation year per capita health care costs were updated.

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

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

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Lake County Educational Service Center



Single Audit Reports

June 30, 2019

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LAKE COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grant/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF EDUCATION			
Passed Through Ohio Department of Education:			
Special Education Cluster:			
Special Education-Grants to States	3M20	84.027	\$1,185,843
Special Education-Preschool Grants	3C50	84.173	<u>188,187</u>
Total Special Education Cluster			<u>1,374,030</u>
Special Education-State Personnel Development	3700	84.323	21,590
School Safety National Activities	3HFO	84.184	<u>105,182</u>
Total Department of Education			<u>1,500,802</u>
Total Federal Assistance			<u><u>\$1,500,802</u></u>

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes federal grant activity of the Center and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). The Center did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Lake County Educational Service Center
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lake County Educational Service Center (the Center), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 10, 2019

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY UNIFORM GUIDANCE**

Lake County Educational Service Center
Lake County
8221 Auburn Road
Concord Township, Ohio 44077

Report on Compliance for Each Major Federal Program

We have audited the Lake County Educational Service Center's (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Center's major federal programs for the year ended June 30, 2019. The Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Center, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Center, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements. We issued our report thereon dated December 10, 2019, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Plattenburg & Associates, Inc.

Plattenburg & Associates, Inc.
Cincinnati, Ohio
December 10, 2019

**LAKE COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2019**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? No
- Significant Deficiency(s) identified? None reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? No

Identification of major federal programs:

Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? Yes

Section II – Findings Related to the Financial Statements Required to be reported in Accordance with GAGAS

None

Section III – Federal Award Findings and Questioned Costs

None

LAKE COUNTY EDUCATIONAL SERVICE CENTER
June 30, 2019

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

The Lake County Educational Service Center had no prior audit findings or questioned costs.

OHIO AUDITOR OF STATE KEITH FABER



LAKE COUNTY EDUCATIONAL SERVICE CENTER

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 31, 2019**