



Dave Yost • Auditor of State

EDUCATIONAL SERVICE CENTER
LICKING COUNTY

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Licking County, Ohio (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Licking County, Ohio, as of June 30, 2013, and the respective changes in cash financial position thereof for the year then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Emphasis of Matter

As discussed in Note 2 to the financial statements, during 2013, the Center has elected to change its financial presentation comparable to the requirements of *Governmental Accounting Standards*. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Center's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position, changes in net position and governmental activities. This information provides additional analysis and is not a required part of the basic financial statements.

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

Other than the aforementioned procedures applied to the tables, we applied no procedures to any other information in Management's Discussion & Analysis, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

Dave Yost
Auditor of State
Columbus, Ohio

April 8, 2014

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Licking County Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

The discussion and analysis of the Licking County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2013. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the cash financial statements and the notes to the basic financial statements to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- Net position of governmental activities decreased \$16,652.
- The Educational Service Center had \$9,819,179 in disbursements; \$9,387,236 of these disbursements were offset by program specific charges for services and operating grants and contributions. General receipts in the amount of \$415,291 were not adequate to provide for these programs.
- At the end of the current fiscal year, the Educational Service Center's governmental funds reported receipts in the amount of \$9,802,527 and disbursements in the amount of \$9,819,179. The ending fund balance was \$600,425 which is a decrease of \$16,652 from the prior fiscal year.

Using this Annual Financial Report

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

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

Basis of Accounting

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

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

Licking County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Reporting the Educational Service Center as a Whole

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

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for School Districts, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, “How did we do financially during fiscal year 2013?” The Statement of Net Position – Cash Basis and the Statement of Activities – Cash Basis answer this question. These statements report the Educational Service Center’s net position and changes in that position. This change in net position is important because it tells the reader that, for the School District as a whole, the financial position of the Educational Service Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

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

Reporting the Educational Service Center’s Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center’s major fund begins on page 7. Fund financial reports provide detailed information about the Educational Service Center’s major fund. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center’s most significant funds. The Educational Service Center’s major governmental fund is the General Fund.

Governmental Funds All of the Educational Service Center’s activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using a cash basis. The governmental fund statements provide a detailed short-term view of the Educational Service Center’s general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs.

The Educational Service Center as a Whole

This is the first year for the Educational Service Center in implementing a new standard. The Educational Service Center has chosen to report on an Other Comprehensive Basis of Accounting in a format similar to that required by Governmental Accounting Statement No. 34. Since this is the first year of implementing the new standard, comparative data is not available. In future years, comparative data will be presented.

Recall that the Statement of Net Position – Cash Basis provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center’s net position for 2013.

Licking County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

Table 1
Net Position - Cash Basis

	Governmental Activities
	2013
Assets	
Equity in Pooled Cash and Cash Equivalents	\$600,425
Net Position	
Restricted	84,282
Unrestricted	516,143
Total Net Position	\$600,425

Net position in the amount of \$84,282, or 14 percent, is restricted as to how the funds can be spent. The remaining balance represents unrestricted net position in the amount of \$516,143, or 86 percent, is to be used to meet ongoing obligations.

Table 2 shows the changes in net position for the fiscal year ended June 30, 2013.

Table 2
Changes in Net Position

	Governmental Activities
	2013
Receipts	
Program Receipts:	
Charges for Services	\$7,676,018
Operating Grants and Contributions	1,711,218
Total Program Receipts	9,387,236
General Receipts:	
Grants and Entitlements	412,862
Investment Earnings	713
Miscellaneous	1,716
Total General Receipts	415,291
Total Receipts	9,802,527
Program Disbursements	
Instruction:	
Regular	2,000
Special	2,651,284
Support Services:	
Pupils	1,367,100
Instructional Staff	4,124,282
Intergovernmental	49,065
Board of Education	13,353
Administration	805,502
Fiscal	316,952
Business	5,733
Operation and Maintenance of Plant	101,316
Central	382,592
Total Disbursements	9,819,179
<i>Change in Net Position</i>	(16,652)
Net Position Beginning of Year - Restated	617,077
Net Position End of Year	\$600,425

Licking County Educational Service Center, Ohio

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2013

Unaudited

The Educational Service Center relies heavily upon special education programs and services provided to local school districts. As a result, charges for services receipts are 78 percent of total receipts. The decrease in net position is the result of a decrease in services requested from local school districts. As of June 30, 2013, the Educational Service Center was still awaiting payment for services provided to Licking Heights Local School District during fiscal years 2011 and 2012. The Educational Service Center received payment for those outstanding services in September 2013 in the amount of \$269,000 which will help to improve net position for the Educational Service Center.

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

Table 3
Governmental Activities - Cash Basis

	2013 Total Cost of Services	2013 Net Cost of Services
Program Disbursements		
Instruction:		
Regular	\$2,000	(\$901)
Special	2,651,284	324,197
Support Services:		
Pupils	1,367,100	416,855
Instructional Staff	4,124,282	(1,580,333)
Intergovernmental	49,065	496
Board of Education	13,353	13,353
Administration	805,502	519,232
Fiscal	316,952	275,183
Business	5,733	5,733
Operation and Maintenance of Plant	101,316	101,316
Central	382,592	356,812
Totals	<u>\$9,819,179</u>	<u>\$431,943</u>

Special instruction programs comprise approximately 27 percent of total governmental program disbursements while support services comprise approximately 73 percent of total governmental program disbursements. Of the support services disbursements, approximately 19 percent is for pupils, 58 percent for instructional staff, and 11 percent for administration.

The Educational Service Center's Major Funds

The Educational Service Center's major fund (the General Fund) is accounted for using the cash basis of accounting. The General Fund had total receipts of \$8,838,390 and disbursements of \$8,871,566 which resulted in a decrease in fund balance of \$33,176. Local school districts are reducing costs and services provided by the Educational Service Center which results in a decrease in fund balance of the General Fund.

Licking County Educational Service Center, Ohio
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013
Unaudited

General Fund Budgeting Highlights

Under Ohio law Educational Service Centers are no longer required to prepare a budget. Therefore, at June 30, 2013 a budgetary statement is not presented within the basic financial statements because the Board did not approve estimated revenues or adopt appropriations.

Debt Administration

Debt

At June 30, 2013, the Educational Service Center had \$38,579 in capital leases outstanding. See Note 10 for more detailed information of the Educational Service Center's debt.

Economic Factors

The Licking County Educational Service Center's net position decreased by \$16,652. As the preceding information reflects, the Educational Service Center relies heavily on the special education services that is provided to local school districts. Special education service charges are based upon the actual cost of the service divided by the number of students who will benefit from the service. The financial positions of the local school districts and their willingness to continue to contract for special education services with the Educational Service Center will have a direct impact on the increase or decrease in receipts of the Educational Service Center.

Contacting the Educational Service Center's Financial Management

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

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Licking County Educational Service Center, Ohio

Statement of Net Position - Cash Basis

June 30, 2013

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$600,425</u>
Net Position	
Restricted for Advisory Services	32,128
Restricted for Other Purposes	52,154
Unrestricted	<u>516,143</u>
<i>Total Net Position</i>	<u><u>\$600,425</u></u>

See accompanying notes to the basic financial statements

Licking County Educational Service Center, Ohio

*Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2013*

	Cash Disbursements	Program Cash Receipts		Net (Disbursements) Receipts and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$2,000	\$0	\$2,901	\$901
Special	2,651,284	1,538,359	788,728	(324,197)
Support Services:				
Pupils	1,367,100	897,706	52,539	(416,855)
Instructional Staff	4,124,282	5,048,245	656,370	1,580,333
Intergovernmental	49,065	0	48,569	(496)
Board of Education	13,353	0	0	(13,353)
Administration	805,502	182,708	103,562	(519,232)
Fiscal	316,952	0	41,769	(275,183)
Business	5,733	0	0	(5,733)
Operation and Maintenance of Plant	101,316	0	0	(101,316)
Central	382,592	9,000	16,780	(356,812)
Totals	<u>\$9,819,179</u>	<u>\$7,676,018</u>	<u>\$1,711,218</u>	<u>(431,943)</u>
General Receipts				
				Grants and Entitlements not Restricted to Specific Programs 412,862
				Investment Earnings 713
				Miscellaneous 1,716
				<u>Total General Receipts 415,291</u>
				<i>Change in Net Position (16,652)</i>
				Net Position Beginning of Year - Restated (See Note 3) 617,077
				<u>Net Position End of Year \$600,425</u>

See accompanying notes to the basic financial statements

Licking County Educational Service Center, Ohio
Statement of Cash Basis Assets and Fund Balances
Governmental Funds
June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$516,143	\$84,282	\$600,425
Fund Balances			
Restricted	0	84,282	84,282
Committed	29,542	0	29,542
Assigned	114,471	0	114,471
Unassigned	372,130	0	372,130
Total Fund Balances	516,143	84,282	600,425
Total Fund Balances	\$516,143	\$84,282	\$600,425

See accompanying notes to the basic financial statements

Licking County Educational Service Center, Ohio
Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

	General	Other Governmental Funds	Total Governmental Funds
Receipts			
Intergovernmental	\$1,186,528	\$878,437	\$2,064,965
Investment Earnings	713	0	713
Charges for Services	7,324,396	64,200	7,388,596
Tuition and Fees	287,422	0	287,422
Contributions and Donations	37,615	21,500	59,115
Miscellaneous	1,716	0	1,716
Total Receipts	8,838,390	964,137	9,802,527
Disbursements			
Current:			
Instruction:			
Regular	0	2,000	2,000
Special	2,504,749	146,535	2,651,284
Support Services:			
Pupils	1,315,101	51,999	1,367,100
Instructional Staff	3,575,832	548,450	4,124,282
Board of Education	13,353	0	13,353
Administration	715,720	89,782	805,502
Fiscal	275,500	41,452	316,952
Business	5,733	0	5,733
Operation and Maintenance of Plant	101,316	0	101,316
Central	364,262	18,330	382,592
Intergovernmental	0	49,065	49,065
Total Disbursements	8,871,566	947,613	9,819,179
Net Change in Fund Balances	(33,176)	16,524	(16,652)
Fund Balances Beginning of Year - Restated (Note 3)	549,319	67,758	617,077
Fund Balances End of Year	<u>\$516,143</u>	<u>\$84,282</u>	<u>\$600,425</u>

See accompanying notes to the basic financial statements

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 1 - REPORTING ENTITY

The Licking County Educational Service Center (the Educational Service Center) is located in Newark, Ohio, the county seat. The Educational Service Center supplies supervisory, special education, administrative, cooperative classes, multi-handicapped preschool, and other services to Johnstown-Monroe, Licking Heights, Lakewood, Licking Valley, North Fork, Northridge, and Southwest Licking Local School District, Granville Exempted Village School District, Newark, and Heath City School District, and the Career and Technology Education Centers of Licking County. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Licking County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 93 support staff employees and 63 certified personnel that provide services to the school districts.

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

A. Primary Government

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

The Educational Service Center participates in the Licking Area Computer Association, the Career and Technology Education Centers of Licking County, the Coalition of Rural and Appalachian Schools, the Metropolitan Educational Council, the School Study Council of Ohio, the Licking County Children and Families First Council, the Ohio School Comp Workers' Compensation Group Retrospective Rating Program, the Ohio School Plan, and the Ohio School Benefits Cooperative, which are defined as jointly governed organizations and insurance purchasing pools. These organizations are presented in Notes 11 and 12.

B. Component Units

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis Of Presentation

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

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

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

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

B. Fund Accounting

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

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

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

C. Basis of Accounting

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

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

D. Budgetary Data

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

E. Cash and Cash Equivalents

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

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

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest receipts credited to the General Fund during fiscal year 2013 amounted to \$713, which includes \$400 assigned from other Educational Service Center funds.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

F. Inventory and Prepaid Items

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

G. Capital Assets

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

H. Interfund Receivables/Payables

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

I. Accumulated Leave

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

J. Employer Contributions to Cost-Sharing Pension Plans

The Educational Service Center recognizes the disbursement for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 7 and 8, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

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

L. Net Position

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

M. Fund Balance Reserves

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

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

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

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

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

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

N. Internal Transactions

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

Exchange transactions between funds are reported as receipts in the seller funds and as disbursements in the purchaser funds. Subsidies from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating receipts/cash disbursements in proprietary funds. Repayments from funds responsible for particular cash disbursements to the funds that initially paid for them are not presented in the financial statements.

O. Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local, exempted village, and city school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as receipts and intergovernmental disbursements. For fiscal year 2013, this included the Early Childhood Special Education Grant Special Revenue Fund.

P. Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management are either unusual in nature or infrequent in occurrence. During fiscal year 2013, the Educational Service Center did not have activity that met the definition of a special item.

NOTE 3 – CHANGE IN ACCOUNTING METHOD

A. Change in Accounting Principles

For fiscal year 2013, the Educational Service Center ceased to report on the basis of generally accepted accounting principles and reported on the cash basis as described in Note 2C.

B. Restatement of Fund Equity

The restatement due to the implementation of this change had the following effects on fund equity of the major and nonmajor funds of the Educational Service Center as they were previously reported. The effects on net position of governmental activities are also presented.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

	General	Other Governmental Funds	Total Governmental Activities
	<u> </u>	<u> </u>	<u> </u>
Fund Balance at 6/30/12	(\$453,097)	\$28,632	(\$424,465)
Eliminate Asset Accruals	(889,901)	(8,593)	(898,494)
Eliminate Liability Accruals	<u>1,892,317</u>	<u>47,719</u>	<u>1,940,036</u>
Restated Fund Balance at 6/30/12	<u><u>\$549,319</u></u>	<u><u>\$67,758</u></u>	<u><u>\$617,077</u></u>

Governmental Activities Net Position June 30, 2012	\$112,693
Eliminate Asset Accruals	(898,494)
Eliminate Liability Accruals	1,940,036
Charges for Services Receivable	(795,191)
Miscellaneous Receivables	(20,000)
Compensated Absences Payable	351,998
Capital Leases Payable	54,498
Capital Assets	<u>(128,463)</u>
Governmental Activities Restated Net Position June 30, 2012	<u><u>\$617,077</u></u>

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

Interim monies held by the Educational Service Center may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury or any obligation guaranteed as to principal and interest by the United States;

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and obligations of the State of Ohio;
5. Time certificates of deposits 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);
7. The State Treasurer's investment pool (STAR Ohio); and,
8. Commercial paper and bankers acceptances if training requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments may only be made through specified dealers and institutions.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$540,026 of the Educational Service Center's bank balance of \$855,708 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, non-compliance with federal requirement could potentially subject the Educational Service Center to a successful claim by the FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2013, the Educational Service Center had no investments.

Licking County Educational Service Center, Ohio

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2013*

NOTE 5 - STATE FUNDING

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

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

Due to provisions in the State budget bill, the per pupil funding in the permanent section of law did not apply to fiscal years 2012 and 2013. Instead, educational service center's received a percentage of the funding they received the previous year. For fiscal year 2013, educational service center's received 85 percent of the funding they received in fiscal year 2012.

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

NOTE 6 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2013, the Educational Service Center participated with other school districts in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP. (See Note 12)

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

<u>Building and Contents (\$1,000 deductible)</u>	
Property	\$1,041,000
Valuable Paper and Records	100,000
Accounts Receivable	100,000
Extra Expense	1,000,000
Business Income	250,000
<u>Crime Insurance (\$1,000 deductible)</u>	
Employee Theft	25,000
Forgery or Alteration	25,000
Computer Fraud	25,000
<u>Inland Marine (\$1,000 deductible)</u>	
Electronic Data Processing Media and Data Reproduction	54,000
<u>Fleet Insurance</u>	
Automobile Liability (\$250 deductible comprehensive and \$500)	2,000,000
<u>General Liability</u>	
Per Occurrence	2,000,000
Aggregate Limit	4,000,000
<u>Educational Legal Liability for General Liability (\$2,500 deductible)</u>	
Errors and Omissions	
Per Occurrence	2,000,000
Aggregate Limit	4,000,000

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

For fiscal year 2013, the Educational Service Center participated in the Ohio School Comp Workers' Compensation Group Retrospective Rating Program (Program), an insurance purchasing pool (Note 12). The Program is intended to achieve lower workers' compensation rates while establishing safer working conditions and environments for participants. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can either receive a premium refund or assessment. Employers will pay experience or based rated premiums under the same terms as if they were not in a retro group. The total premium for the entire group is the standard premium of the group. The standard premium serves as the benchmark that is adjusted up and down retroactively. In order to allocate the savings derived by formation of the Program, the Program's executive committee annually calculates the group-retrospective premium based on developed incurred claim losses for the whole group. The new premium is compared to the standard premium. If the retrospective premium is lower than the standard premium, a refund will be distributed to the employers of the group. If the retrospective premium is higher, an assessment will be charged to each participant.

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

NOTE 7 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

Plan Description – The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio 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. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor 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 - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The statutory maximum employee contribution rate will be increased one percent each year beginning July 1, 2013, until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2013, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

The Educational Service Center's required contributions to STRS Ohio for the DB Plan and for the defined benefit portion of the Combined Plan were \$462,229 and \$8,760 for the fiscal year ended June 30, 2013, \$523,403 and \$12,209 for the fiscal year ended June 30, 2012, and \$576,103 and \$10,622 for the fiscal year ended June 30, 2011. For fiscal year 2013, 85.53 percent has been contributed for the DB plan and 85.53 percent has been contributed for the Combined Plan by fiscal year-end. The full amount has been contributed for fiscal years 2012 and 2011.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2013 was \$30,855 made by the Educational Service Center and \$22,039 made by the plan members. In addition, member contributions of \$6,257 were made for fiscal year 2013 for the defined contribution portion of the Combined Plan.

B. School Employees Retirement System

Plan Description – The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. 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 and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2013, the allocation to pension and death benefits was 13.10 percent. The remaining 0.9 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2013, 2012, and 2011, were \$339,201, \$373,616, and \$356,193, respectively. For fiscal year 2013, 85.16 percent has been contributed by fiscal year-end. The full amount has been contributed for fiscal years 2012 and 2011.

NOTE 8 - POST-EMPLOYMENT BENEFITS

A. State Teachers Retirement System

Plan Description – The Educational Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2013, STRS Ohio allocated employer

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

contributions equal to 1 percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011, were \$38,603, \$43,375, and \$47,654 respectively. For fiscal year 2013, 85.53 percent has been contributed by fiscal year-end. The full amount has been contributed for fiscal years 2012 and 2011.

B. School Employee Retirement System

Plan Description – The Educational Service Center participates in two cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plans administered by the School Employees Retirement System for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's and traditional indemnity plans as well as a prescription drug program. The Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries up to a statutory limit. Benefit provisions and the obligation to contribute are established by SERS based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2013, 0.16 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2013, this amount was \$20,525. During fiscal year 2013, the School District paid \$37,803 in surcharge.

Active employee members do not contribute to the Health Care Plan. Retirees and their beneficiaries are required to pay a health care premium that varies depending on the plan selected, the number of qualified years of service, Medicare eligibility and retirement status.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$40,940, \$53,983, and \$84,321, respectively. For fiscal year 2013, 8.62 percent has been contributed by fiscal year-end. The full amount has been contributed for fiscal years 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011, were \$19,161, \$22,064, and \$22,922 respectively. For fiscal year 2013, 85.16 percent has been contributed by fiscal year-end. The full amount has been contributed for fiscal years 2012 and 2011.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 9 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Insurance Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio. The Educational Service Center pays medical and drug monthly premiums of up to \$1,115.85 maximum per person. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides dental and prescription drug insurance to its employees through the same insurance carrier. The Educational Service Center pays a dental premium of up to \$58.86 monthly maximum per person for family coverage. The Educational Service Center also provides life insurance in the amount of \$50,000 through the Metropolitan Educational Council at a cost of \$5.00 per employee per month.

NOTE 10 - CAPITAL LEASES - LESSEE DISCLOSURE

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

The agreement provides for minimum annual lease payments as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Total</u>
2014	\$18,695
2015	15,475
2016	5,566
2017	1,155
Total minimum lease payments	<u>40,891</u>
Less: Amount representing interest	<u>(2,312)</u>
Present value of minimum lease	<u><u>\$38,579</u></u>

Principal payments in fiscal year 2013 totaled \$15,919 in the governmental funds. Principal and interest payments for capital leases for fiscal year 2013 are shown in the financial statements in the function from which the Educational Service Center made the payment.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 11 - JOINTLY GOVERNED ORGANIZATIONS

A. Licking Area Computer Association

The Educational Service Center is a participant in the Licking Area Computer Association (LACA) which is a computer consortium. LACA is an association which services approximately thirty entities within the boundaries of Fairfield, Licking, Perry, and Muskingum Counties. These entities consist of public school districts and educational service centers. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The continued existence of LACA is not dependent on the Educational Service Center's continued participation and no equity interest exists.

The LACA constitution states that any Educational Service Center withdrawing from the Association prior to dissolution forfeits their claim to the Association's capital assets. The Board exercises total control over the operations of LACA including budgeting, appropriating, contracting, and designating management. The Educational Service Center's payments to LACA for computer services for fiscal year 2013 were \$31,381. Financial statements for LACA can be obtained from their fiscal agent - the Career and Technology Education Centers of Licking County, 145 North Quentin Road, Newark, OH 43055.

B. Career and Technology Education Centers of Licking County

The Career and Technology Education Centers of Licking County is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of three board members from the Licking County Educational Service Center, two from the Newark City School District, one from the Heath City School District, and one from the Granville Exempted Village School District, which possesses its own budgeting and taxing authority. The Board exercises total control over the operations of the Career and Technology Education Center including budgeting, appropriating, contracting, and designating management. The Educational Service Center's payments to the Career and Technology Education Centers of Licking County for services for fiscal year 2013 were \$1,650. To obtain financial information write to the Career and Technology Education Centers of Licking County, Benjamin Streby, who serves as Treasurer, at 150 Price Road, Newark, Ohio 43055.

C. Coalition of Rural and Appalachian Schools

The Coalition of Rural and Appalachian Schools is a jointly governed organization composed of over 130 School Districts and other educational institutions in the 29-county region of Ohio designated as Appalachia. The Coalition is operated by a Board which is composed of seventeen members. One elected and one appointed from each of the seven regions into which the 29 Appalachian counties are divided; and three from Ohio University College of Education. The Council provides various in-service training programs for Educational Service Center administrative personnel; gathers data regarding the level of education provided to children in the region; cooperates with other professional groups to assess and develop programs designed to meet the needs of member districts; and provides staff development programs for Educational Service Center personnel. The Council is not dependent on the continued participation of the Educational Service Center and the Educational Service Center does not maintain an equity interest in or financial responsibility for the Council. The Council exercises total control over the operations of the Coalition including budgeting, appropriating, contracting, and designating management. The Educational Service Center paid nothing to the Coalition of Rural and Appalachian Schools during fiscal year 2013.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

D. Metropolitan Educational Council

The Educational Service Center participates in the Metropolitan Educational Council (MEC), a jointly governed organization. The organization is composed of over 250 members which includes school districts, joint vocational schools, educational service centers, and libraries covering 59 counties in Ohio. The MEC helps its members purchase services, insurances, supplies, and other items at a discounted rate. The Educational Service Center participates in the insurance purchasing pool. The governing board of MEC is composed of either the superintendent, a designated representative or a member of the board of education for each participating School District in Franklin County (18 School Districts) and one representative from each county.

Each year, the participating school districts pay a membership fee to MEC to cover the costs of administering the program. The Council exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. The Educational Service Center's membership payment to MEC for fiscal year 2013 was \$300. Financial information may be obtained from the Metropolitan Educational Council, Sue Ward, who serves as fiscal officer, at 2100 Citygate Drive., Columbus, OH 43219.

E. School Study Council of Ohio

The School Study Council of Ohio (Council) is a jointly governed organization operated by a Board of Trustees (Board). The Council is comprised of 55 member organizations. The purpose of the Council is to bring about the improvement of education in member school organizations. Members maintain active membership by paying a yearly membership fee which entitles each school district to attend Council meetings and to vote. School districts that elect to be associate members are entitled to attend meetings and participate in Council discussions but are not entitled to vote. The Board is annually elected from within the Council's active membership. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting, and designating management. The Board consisted of sixteen members. In fiscal year 2013, the Educational Service Center obtained active membership privileges and paid a membership fee of \$300. Financial information may be obtained by contacting the School Study Council of Ohio at 5747 Perimeter Drive, Suite 100A, Dublin, Ohio 43017.

F. Licking County Children and Families First Council

The Licking County Children and Families First Council (Council) is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: Director of the Licking Knox County Mental Health and Recovery Services Board, Director of the Licking County Alcoholism Prevention Program, Health Commissioner of the Licking County Health Department, Health Commissioner of the City of Newark, Director of Licking County Human Services, Director of Family and Health Services, Director of Moundbuilders Guidance Center, Director of Family Counseling Services, Director of Licking County Coalition for Housing, Superintendent of the Licking County Board of Developmental Disabilities, Licking County Juvenile Court Judge, Superintendent of the Licking County Educational Services Center, the Superintendent of Newark City Schools, a representative of the City of Newark, a representative of the Licking Economic Action Development Study, a representative of the Licking County United Way, a representative from Family and Consumer Services, a representative of the County's Early Intervention Network, a representative of the Licking County Commissioners Office, the East District Family and Children First Coordinator and at least three individuals representing the interests of families of the County. When possible, the number of members representing families shall be equal to twenty percent of the Council's remaining membership. In fiscal year 2013, the Educational Service Center paid a membership fee of \$2,000.

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

NOTE 12 - INSURANCE PURCHASING POOLS

A. Ohio School Comp Workers' Compensation Group Retrospective Rating Program

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

The Program, a Bureau of Workers' Compensation certified sponsor, established the program based upon guidelines set forth by the Bureau of Workers' Compensation (BWC). The Program created a group of school districts that will practice effective workplace safety and claims management to achieve lower premiums for workers compensation coverage than they would individually. The participating school districts continue to pay their own premiums and have the opportunity to receive retrospective premium adjustments based upon the combined performance of the group. Depending upon that performance, the participating school districts can receive either a premium refund or assessment. The Program's third party administrator (TPA), Comp Management, Inc., provides administrative, cost control, and actuarial services to the Program. The cost of the TPA will be paid by each school district in proportion to its payroll to the total payroll of the group. The Educational Service Center paid \$2,115 in enrollment fees to the Program during fiscal year 2013.

B. Ohio School Plan

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

C. Ohio School Benefits Cooperative

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

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

NOTE 13 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2013.

B. Litigation

As of June 30, 2013, the Educational Service Center was not a party to any lawsuits.

NOTE 14 – NONCOMPLIANCE

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

NOTE 15 – FUND BALANCES

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

Licking County Educational Service Center, Ohio

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2013

<u>Fund Balances</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Restricted for:			
Advisory Services	\$0	\$32,128	\$32,128
Entry Year Services	0	7,477	7,477
State Grant Expenditures	0	44,677	44,677
<i>Total Restricted</i>	<u>0</u>	<u>84,282</u>	<u>84,282</u>
<u>Committed to:</u>			
Purchases on Order	29,542	0	29,542
<i>Total Committed</i>	<u>29,542</u>	<u>0</u>	<u>29,542</u>
Assigned to:			
Preschool Program	85,699	0	85,699
Purchases on Order	28,772	0	28,772
<i>Total Assigned</i>	<u>114,471</u>	<u>0</u>	<u>114,471</u>
Unassigned:	372,130	0	372,130
<i>Total Fund Balance</i>	<u><u>\$516,143</u></u>	<u><u>\$84,282</u></u>	<u><u>\$600,425</u></u>

NOTE 16 – SUBSEQUENT EVENT

As of June 20, 2013, the Educational Service Center was still awaiting payment from the Licking Heights Local School District for services rendered during fiscal years 2011 and 2012. During fiscal year 2013, the Educational Service Center had filed through court action in an attempt to recover these costs. The dispute has been settled prior to any court proceedings and on September 25, 2013, the Educational Service Center received a settlement check in the amount of \$269,000 from the Licking Heights Local School District.

The Educational Service Center entered into a lease agreement with the Board of Education of the Newark City School District on October 9, 2012 for office space. The lease is from August 1, 2013 to July 31, 2023. The rent is \$50,000 per year.

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Dave Yost • Auditor of State

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

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Educational Service Center, Licking County, Ohio (the Center) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 8, 2014, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion.

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The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2013-001.

Entity's Response to Findings

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Center's response and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State
Columbus, Ohio

April 8, 2014

EDUCATIONAL SERVICE CENTER
LICKING COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2013

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

FINDING NUMBER 2013-001

Noncompliance

Ohio Rev. Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires the Center to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. However, the Center prepared its financial statements in accordance with the cash basis of accounting in a report format similar to the requirements of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. This presentation differs from accounting principles generally accepted in the United States of America (GAAP).

The accompanying financial statements and notes omitted assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38 the Center may be fined for its failure to file the required financial report.

We recommend the Center prepare its financial statements in accordance with GAAP.

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

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EDUCATIONAL SERVICE CENTER

LICKING 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
MAY 8, 2014**