



Dave Yost • Auditor of State



**BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Brown County Educational Service Center  
Brown County  
9231 Hamer Road  
Georgetown, Ohio 45121

To the Board of Education:

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

We have audited the accompanying financial statements of the governmental activities, the General Fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

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

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

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

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio, as of June 30, 2015, and the respective changes in financial position for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 3 to the financial statements, during the year ended June 30, 2015, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and also GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. We did not modify our opinion regarding this matter.

***Other Matters***

*Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2017, 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.



**Dave Yost**  
Auditor of State

Columbus, Ohio

April 20, 2017

***Brown County Educational Service Center***  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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As management of the Brown County Educational Service Center, we offer readers of the Brown County Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

The Educational Service Center reported deficit net position of (\$5,358,724) at June 30, 2015. This deficit is the result of implementing GASB 68 and reporting a net pension liability of \$6,282,612.

In total, net position increased \$147,181, due to revenues exceeding expenses.

**Using the Basic 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 Brown County Educational Service Center as a financial whole, or an entire operating entity.

The Statement of Net Position and the Statement of Activities 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. 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 major funds with all other nonmajor funds presented in total in one column.

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

One of the most important questions asked about the Educational Service Center is "How did we do financially during fiscal year 2015?" The Statement of Net Position and the Statement of Activities, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report net position and changes in net position. This change in net position is important because it tells the reader that, for the Educational Service Center as a whole, the financial position of the Educational Service Center has improved or diminished. Some factors may be financial while others such as mandated educational programs are non-financial factors.

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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All of the Educational Service Center's programs and services are reported as governmental activities. These activities include instruction and support services.

**Reporting the Brown County Educational Service Center's Most Significant Fund**

**Fund Financial Statements**

Fund financial reports provide detailed information about the Educational Service Center's major funds. 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 major fund, which 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 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 Educational Service Center's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or difference) between governmental activities (reported in the Statement of Net Position and the Statements of Activities) and governmental funds is reconciled in the financial statements.

**Fiduciary Funds** - The Educational Service Center's only fiduciary funds are agency funds. These activities are excluded from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net position for fiscal years 2015 and 2014:



**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

	<u>2015</u>	<u>2014</u>	<u>Change</u>
<b>Assets:</b>			
Current and Other Assets	\$2,307,656	\$2,198,845	\$108,811
Capital Assets, Net	19,278	17,081	2,197
Total Assets	<u>2,326,934</u>	<u>2,215,926</u>	<u>111,008</u>
<b>Deferred Outflows of Resources</b>			
Pension	<u>462,319</u>	<u>389,031</u>	<u>73,288</u>
<b>Liabilities:</b>			
Other Liabilities	528,302	463,428	64,874
Long-Term Liabilities:			
Net Pension Liability	6,282,612	7,453,845	(1,171,233)
Other Amounts	216,795	193,589	23,206
Total Liabilities	<u>7,027,709</u>	<u>8,110,862</u>	<u>(1,083,153)</u>
<b>Deferred Inflow of Resources</b>			
Pension	<u>1,120,268</u>	<u>0</u>	<u>1,120,268</u>
<b>Net Position:</b>			
Net Investment in Capital Assets	19,278	17,081	2,197
Unrestricted	(5,378,002)	(5,522,986)	144,984
Total Net Position	<u>(5,358,724)</u>	<u>(5,505,905)</u>	<u>\$147,181</u>

During 2015, the Educational Service Center adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Educational Service Center's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals the Educational Service Center's proportionate share of each plan's collective:

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

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

In accordance with GASB 68, the Educational Service Center's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, the Educational Service Center is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting. This implementation also had the effect of restating net position at June 30, 2014, from \$1,558,909 to (\$5,505,905).

Table 1 is a comparison of the composition of net position of governmental activities as of June 30, 2015 and 2014. Total net position increased during the fiscal year due to several factors. Net investment in capital assets increased due to additions exceeding depreciation expense for the year.

**Brown County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

Unrestricted net position increased due to the Educational Service Center closely monitoring all expenses.

Table 2 shows the changes in net position for fiscal years 2015 and 2014.

(Table 2)  
Changes in Net Position

	Governmental Activities		Change
	2015	2014	
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for Services	\$3,858,815	\$3,820,677	\$38,138
Operating Grants and Contributions	500,697	444,241	56,456
Total Program Revenues	<u>4,359,512</u>	<u>4,264,918</u>	<u>94,594</u>
<b>General Revenues:</b>			
Grants and Entitlements not			
Restricted to Specific Programs	199,268	282,812	(83,544)
Gifts and Donations	5,086	0	5,086
Investment Earnings	7,897	7,385	512
Miscellaneous	10,947	7,689	3,258
Total General Revenues	<u>223,198</u>	<u>297,886</u>	<u>(74,688)</u>
Total Revenues	<u>4,582,710</u>	<u>4,562,804</u>	<u>19,906</u>
<b>Program Expenses</b>			
Instruction:			
Regular	707,867	552,482	155,385
Special	1,783,573	1,763,909	19,664
Support Services:			
Pupils	1,044,871	1,075,244	(30,373)
Instructional Staff	354,752	483,390	(128,638)
Board of Education	29,991	29,678	313
Administration	246,485	230,721	15,764
Fiscal	161,638	152,502	9,136
Business	0	1,000	(1,000)
Operation and Maintenance of Plant	56,399	68,776	(12,377)
Pupil Transportation	0	9,400	(9,400)
Central	49,953	118,131	(68,178)
Total Expenses	<u>4,435,529</u>	<u>4,485,233</u>	<u>(49,704)</u>
Change in Net Position	147,181	77,571	<u>\$69,610</u>
Net Position at Beginning of Year	(5,505,905)	N/A	
Net Position at End of Year	<u>(\$5,358,724)</u>	<u>(\$5,505,905)</u>	

The information necessary to restate the 2014 beginning balances and the 2014 pension expense amounts for the effects of the initial implementation of GASB 68 is not available. Therefore, 2014 functional expenses still include pension expense of \$430,184 computed under GASB 27. GASB 27 required recognizing pension expense equal to the contractually required contributions to the plan.

**Brown County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2015**  
**Unaudited**

Under GASB 68, pension expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of pension expense. Under GASB 68, the 2015 statements report pension expense of \$279,649. Consequently, in order to compare 2015 total program expenses to 2014, the following adjustments are needed:

Total 2015 program expenses under GASB 68	\$4,435,529
Pension expense under GASB 68	(279,649)
2015 contractually required contribution	403,902
Adjusted 2015 program expenses	4,559,782
Total 2014 program expenses under GASB 27	4,485,233
Change in program expenses not related to pension	\$74,549

The increase in charges for services and operating grants and contributions was offset by a decrease in grants and entitlements not restricted to specific programs. The increase in overall revenue was minimal in fiscal year 2015. Regular and special instruction increased from the prior.

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

(Table 3)  
Governmental Activities

	Total Cost of Services 2015	Total Cost of Services 2014	Net Cost of Services 2015	Net Cost of Services 2014
Instruction	\$2,491,440	\$2,316,391	\$6,816	(\$124,208)
Support Services	1,944,089	2,168,842	(82,833)	(96,107)
Total Expenses	\$4,435,529	\$4,485,233	(\$76,017)	(\$220,315)

**The Educational Service Center's Funds**

Information about the Educational Service Center's major fund starts on page 10. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$4,592,863 and expenditures of \$4,538,773.

The fund balance in the General Fund increased \$54,090. This was mainly due to a decrease in the payout of severance compared to the prior fiscal year and continued efforts to monitor expenditures as state funding continues to decrease.

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2015  
Unaudited

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**General Fund - Budget Highlights**

The Educational Service Center is no longer required under Ohio law to file budgetary information with the State Department of Education. No budgetary information is presented because the Governing Board did not approve estimated revenues or adopt appropriations.

**Capital Assets**

At the end of fiscal year 2015 the Educational Service Center had \$19,278 invested in capital assets.

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

	<u>Governmental Activities</u>	
	<u>2015</u>	<u>2014</u>
Furniture and Equipment	<u>\$19,278</u>	<u>\$17,081</u>

For more information on capital assets, see note 6 to the basic financial statements.

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

This financial report is designed to provide our citizens, taxpayers, and 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 information contact Blinda Boothby, Treasurer, Brown County Educational Service Center, 9231 Hamer Road, Georgetown, Ohio, 45121.

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*Brown County Educational Service Center*

Statement of Net Position

June 30, 2015

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	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,154,063
Materials and Supplies Inventory	93,377
Accrued Interest Receivable	166
Intergovernmental Receivable	55,678
Prepaid Items	4,372
Depreciable Capital Assets, Net	<u>19,278</u>
Total Assets	<u>2,326,934</u>
<b>Deferred Outflows of Resources</b>	
Pension	<u>462,319</u>
<b>Liabilities</b>	
Accounts Payable	27,529
Accrued Wages and Benefits Payable	337,894
Intergovernmental Payable	162,879
Long-Term Liabilities:	
Due Within One Year	34,210
Due in More Than One Year	
Net Pension Liability	6,282,612
Other Amounts	<u>182,585</u>
Total Liabilities	<u>7,027,709</u>
<b>Deferred Inflows of Resources</b>	
Pension	<u>1,120,268</u>
<b>Net Position</b>	
Net Investment in Capital Assets	19,278
Unrestricted (Deficit)	<u>(5,378,002)</u>
Total Net Position (Deficit)	<u><u>(\$5,358,724)</u></u>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**

Statement of Activities

For the Fiscal Year Ended June 30, 2015

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$707,867	\$326,826	\$371,680	(\$9,361)
Special	1,783,573	1,703,053	96,697	16,177
Support Services:				
Pupils	1,044,871	1,055,832	20,200	31,161
Instructional Staff	354,752	270,117	12,120	(72,515)
Board of Education	29,991	0	0	(29,991)
Administration	246,485	248,082	0	1,597
Fiscal	161,638	171,342	0	9,704
Operation and Maintenance of Plant	56,399	53,207	0	(3,192)
Central	49,953	30,356	0	(19,597)
<b>Total Governmental Activities</b>	<b>\$4,435,529</b>	<b>\$3,858,815</b>	<b>\$500,697</b>	<b>(76,017)</b>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				199,268
Gifts and Donations				5,086
Investment Earnings				7,897
Miscellaneous				10,947
				<b>223,198</b>
<b>Total General Revenues</b>				<b>223,198</b>
<b>Change in Net Position</b>				<b>147,181</b>
<b>Net Position at Beginning of Year - Restated (see Note 3)</b>				<b>(5,505,905)</b>
<b>Net Position (Deficit) at End of Year</b>				<b>(\$5,358,724)</b>

See Accompanying Notes to the Basic Financial Statements



*Brown County Educational Service Center*

Balance Sheet  
Governmental Funds  
June 30, 2015

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	<u>General</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,154,063
Materials and Supplies Inventory	93,377
Accrued Interest Receivable	166
Intergovernmental Receivable	55,678
Prepaid Items	4,372
	<hr/>
Total Assets	<u>\$2,307,656</u>
<b>Liabilities</b>	
Accounts Payable	\$27,529
Accrued Wages and Benefits Payable	337,894
Intergovernmental Payable	162,879
	<hr/>
Total Liabilities	<u>528,302</u>
<b>Fund Balance</b>	
Nonspendable	97,749
Committed	8,000
Assigned	19,529
Unassigned	1,654,076
	<hr/>
Total Fund Balance	<u>1,779,354</u>
Total Liabilities and Fund Balance	<u>\$2,307,656</u>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
 Reconciliation of Total Governmental Fund Balances to  
 Net Position of Governmental Activities  
 June 30, 2015

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<b>Total Governmental Fund Balances</b>		\$1,779,354
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Capital assets	125,889	
Accumulated depreciation	<u>(106,611)</u>	
Total capital assets		19,278
 The net pension liability is not due and payable in the current period; therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:		
Deferred Outflows-Pension	462,319	
Deferred Inflows-Pension	(1,120,268)	
Net Pension Liability	<u>(6,282,612)</u>	
Total		(6,940,561)
 Compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
		<u>(216,795)</u>
 <b>Net Position of Governmental Activities</b>		 <u><u>(\$5,358,724)</u></u>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2015

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Intergovernmental	\$281,014	\$418,951	\$699,965
Interest	7,897	0	7,897
Tuition and Fees	104,429	0	104,429
Gifts and Donations	5,086	0	5,086
Customer Sales and Services	3,764,539	0	3,764,539
Miscellaneous	10,947	0	10,947
<b>Total Revenues</b>	<u>4,173,912</u>	<u>418,951</u>	<u>4,592,863</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	344,831	374,300	719,131
Special	1,812,994	14,951	1,827,945
Support Services:			
Pupils	1,043,459	20,400	1,063,859
Instructional Staff	359,022	9,300	368,322
Board of Education	30,155	0	30,155
Administration	251,646	0	251,646
Fiscal	172,463	0	172,463
Operation and Maintenance of Plant	56,399	0	56,399
Central	48,853	0	48,853
<b>Total Expenditures</b>	<u>4,119,822</u>	<u>418,951</u>	<u>4,538,773</u>
Net Changes in Fund Balances	54,090	0	54,090
Fund Balances at Beginning of Year	<u>1,725,264</u>	<u>0</u>	<u>1,725,264</u>
Fund Balances at End of Year	<u><u>\$1,779,354</u></u>	<u><u>\$0</u></u>	<u><u>\$1,779,354</u></u>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in  
 Fund Balances of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2015

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<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$54,090
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*Amounts reported for governmental activities in the  
 Statement of Activities are different because:*

Capital outlays are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital asset additions	8,357	
Depreciation expense	(6,160)	
Excess of depreciation over capital outlay expense		2,197

Because some revenues will not be collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are not reported as revenues in the funds.

Customer Sales and Services	(10,153)
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Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.

Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the Statement of Activities	(279,649)
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Some items 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. These activities consist of:

Increase in compensated absences	(23,206)
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<b>Change in Net Position of Governmental Activities</b>	<u><u>\$147,181</u></u>
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See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Fiduciary Assets and Liabilities  
June 30, 2015

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$4,891,584</u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$4,891,584</u>

See Accompanying Notes to the Basic Financial Statements

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***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 1 – Description of the Educational Service Center and Reporting Entity**

The Brown County Educational Service Center (the “Educational Service Center”) operates under a Governing Board as defined by Section 3313.01 of the Ohio Revised Code. The Brown County Governing Board was chartered to operate by the State Board of Education on June 10, 1968. The Governing Board consists of five members elected at large for staggered four year terms. The Educational Service Center is an administrative entity providing supervision and certain other services to local school districts located in Brown County. The Educational Service Center employs 37 certified and 50 classified staff members, and provides services to the local and exempted village school districts.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards and agencies that are not legally separate from the Educational Service Center. For the Brown County Educational Service Center, this includes general operations, preschool, as well as teacher and student developmental activities.

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 entitled to or can otherwise access the organization’s resources; 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, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Educational Service Center. The Educational Service Center has no component units.

The Educational Service Center participates in a jointly governed organization, insurance purchasing pool, and public entity shared risk and insurance purchasing pool. These organizations are discussed in Note 14 to the basic financial statements. These organizations are:

Jointly Governed Organization

South Central Ohio Computer Association Regional Council of Governments

Insurance Purchasing Pool

Ohio Association of School Business Officials Workers’ Compensation  
Group Rating Plan

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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Public Entity Shared Risk and Insurance Purchasing Pool  
Brown County Schools Benefits Consortium

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

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

**Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The statements usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type; however the Educational Service Center 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 direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues 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. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions.

The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the 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



***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. The funds of the Educational Service Center are divided into two categories: governmental and fiduciary.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses 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 liabilities is reported as fund balance. The following is the Educational Service Center's major governmental fund.

General Fund – The General Fund is the operating fund of the Educational Service Center and is used to account for and report all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

**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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds. The agency funds account for activities related to the 125 Plan and the Brown County Schools Benefits Consortium.

## ***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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### **Measurement Focus**

#### **Government-wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the Statement of Net Position. The Statement of Activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net position.

#### **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 and current liabilities 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 a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental 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 and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows or resources, 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. “Measurable” means that the amount of the transaction can be determined, and “available” means that the resources are collectible 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 Educational Service Center, available means expected to be received within 31 days of fiscal year-end.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have

## ***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Educational Service Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Educational Service Center on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, interest and customer sales and services are considered to be both measurable and available at fiscal year-end.

### 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 Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension. The deferred outflows of resources related to pension are explained in Note 9.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources included pension. Deferred inflows of resources related to pension are reported on the government-wide statement of net position (See Note 9).

### 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. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

### Pensions

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

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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**Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center, except cash held as fiscal agent for the Brown County Schools Benefits Consortium and cash held in relation to the 125 plan, is pooled in a central bank account. 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. Cash received and held as fiscal agent for the Brown County Schools Benefits Consortium and cash held in relation to the 125 plan are held in separate bank accounts and are presented as “Cash and Cash Equivalents in Segregated Accounts.”

During fiscal year 2015, investments were limited to certificates of deposit, reported at cost, and the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s net asset value per share, which is the price the investment could be sold for on June 30, 2015.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2015 amounted to \$7,897.

Investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are presented on the financial statements as cash equivalents.

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2015, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the fiscal year in which services are consumed.

**Inventory**

Inventories are presented at cost on a first-in, first-out basis and are expended/expensed when used. Inventory consists of materials and supplies held for consumption.

**Capital Assets**

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These 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.

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition), and are updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure.

All reported capital assets are depreciated. Depreciation of furniture and equipment is computed using the straight-line method over five to 20 years.

**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 Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service 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 liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Educational Service Center.

The entire compensated absences liability is reported on the government-wide financial statements.

**Accrued Liabilities and Long-term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and the net pension liability that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year.

**Fund Balance**

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

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

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

**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. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center Board. State statute authorizes the Treasurer to assign fund balance 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 a deficit fund balance.

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 amounts in any of the unrestricted fund balance classifications could be used.

**Net Position**

Net position represents the difference between all other elements in a statement of financial position. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

## ***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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

### **Internal Activity**

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

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 and are eliminated from the Statement of Activities. 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.

### **Budgetary Process**

No budgetary information is presented because the Governing Board did not approve estimated revenues or adopt appropriations. Under Ohio law Educational Service Centers are no longer required to file budgetary information with the State Department of Education.

### **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.

### **Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and exempted village school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures/expenses. For fiscal year 2015, the Educational Service Center had no flow through grants.

### **Note 3 – Change In Accounting Principal And Restatement Of Net Position**

For fiscal year 2015, the Educational Service Center implemented the Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68.” GASB 68 established standards for measuring and recognizing pension liabilities, deferred outflows of resources deferred inflows of resources and expense/expenditure. The implementation of this pronouncement had the following effect on net position as reported June 30, 2014:

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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Net position June 30, 2014	\$1,558,909
Adjustments:	
Net Pension Liability	(7,453,845)
Deferred Outflow - Payments Subsequent to Measurement Date	<u>389,031</u>
Restated Net Position June 30, 2014	<u><u>(\$5,505,905)</u></u>

Other than employer contributions subsequent to the measurement date, the Educational Service Center made no restatement for deferred inflows/outflows of resources as the information needed to generate these restatements was not available.

**Note 4 – Deposits and Investments**

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

Active monies are public monies determined to be necessary to meet current demands upon the Educational Service Center's 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 that the Governing Board 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 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, Government National Mortgage Association, and Student Loan



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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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 other obligations of the State of Ohio; or Ohio Local Governments;
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) above;
7. The State Treasurer's investment pool (STAROhio); 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.

Investments

As of June 30, 2015, the Educational Service Center only had investments in STAROhio.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$2,000	Average 53.4 days

Interest Rate Risk

The Educational Service Center has no investment policy that addresses interest rate risk beyond the requirements of State statute. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Educational Service Center, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk

STAROhio carries a rating of AAAM by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Educational Service Center has no investment policy that addresses credit risk.

Concentration of Credit Risk

The Educational Service Center places no limit on the amount it may invest in any one issuer.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

**Note 5 – Receivables**

Receivables at June 30, 2015, consisted of interest and amounts due from other school districts and governmental agencies. All receivables are considered collectible in full and will be received within one year. The Educational Service Center had the following intergovernmental receivable:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Excess Costs	\$22,699
SERS Reimbursement	20,455
E-Rate	<u>12,524</u>
Total Intergovernmental Receivable	<u><u>\$55,678</u></u>

**Note 6 – Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Ending Balance 6/30/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2015</u>
<u>Governmental Activities:</u>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$117,532	\$8,357	\$0	\$125,889
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(100,451)</u>	<u>(6,160) *</u>	<u>0</u>	<u>(106,611)</u>
Depreciable Capital Assets, Net	<u>\$17,081</u>	<u>\$2,197</u>	<u>\$0</u>	<u>\$19,278</u>

\* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$783
Support Services:	
Pupils	2,034
Instructional Staff	1,272
Administration	144
Fiscal	827
Central	<u>1,100</u>
Total Depreciation Expense	<u><u>\$6,160</u></u>

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 7 – State and Local School District Funding**

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each local 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 and exempted village 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 the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$35.00 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 includes a proration factor equal to 0.766461550 that is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**Note 8 – Risk Management**

**Liability Insurance**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, professional liability was provided by the Ohio Casualty Insurance Company with a \$4,000,000 aggregate limit.

The Ohio Casualty Group Insurance Company maintains a \$50,000 public official bond for the Treasurer. A \$2,000 blanket bond for other employees is also maintained by the Ohio Casualty Group Insurance Company.

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

## ***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

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### **Workers' Compensation Group Rating Plan**

For fiscal year 2015, the Educational Service Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

### **Employee Medical and Dental Benefits**

The School District participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk and insurance purchasing pool (Note 14) consisting of nine districts. The Consortium has elected to have United Healthcare provide medical coverage purchased as a group through the Consortium. Dental coverage is being provided through a shared risk pool based on member districts' number of employees. The School District is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and dental benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member relinquishes their portion of equity in the Consortium's cash pool.

### **Note 9 - Defined Benefit Pension Plans**

#### ***Net Pension Liability***

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

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

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

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

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

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 year 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.

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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

Funding Policy – Plan members are required to contribute 10 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, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$144,238 for fiscal year 2015. Of this amount \$17,463 is reported as an intergovernmental payable.

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

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

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

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 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

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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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 allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50.

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates. The Educational Service Center's contractually required contribution to STRS was \$259,664 for fiscal year 2015. Of this amount \$28,251 is reported as an intergovernmental payable.

***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, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all

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For the Fiscal Year Ended June 30, 2015

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	\$1,851,900	\$4,430,712	\$6,282,612
Proportion of the Net Pension Liability	0.036592%	0.0182158%	
Pension Expense	\$108,055	\$171,594	\$279,649

At June 30, 2015, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$15,762	\$42,655	\$58,417
School District contributions subsequent to the measurement date	144,238	259,664	403,902
Total Deferred Outflows of Resources	<u>\$160,000</u>	<u>\$302,319</u>	<u>\$462,319</u>
<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	<u>\$300,569</u>	<u>\$819,699</u>	<u>\$1,120,268</u>

\$403,902 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. 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:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2016	(\$71,162)	(\$194,261)	(\$265,423)
2017	(71,162)	(194,261)	(265,423)
2018	(71,162)	(194,261)	(265,423)
2019	<u>(71,321)</u>	<u>(194,261)</u>	<u>(265,582)</u>
Total	<u>(\$284,807)</u>	<u>(\$777,044)</u>	<u>(\$1,061,851)</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



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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

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For the Fiscal Year Ended June 30, 2015

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	<u>15.00</u>	7.50
 Total	 <u><u>100.00 %</u></u>	

**Discount Rate** The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 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 Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 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 (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$2,642,111	\$1,851,900	\$1,187,264

**Actuarial Assumptions - STRS**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

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Notes to the Basic Financial Statements  
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Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long Term Expected Real Rate of Return</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

**Discount Rate** The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

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Notes to the Basic Financial Statements  
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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School District's proportionate share of the net pension liability	\$6,343,049	\$4,430,712	\$2,813,520

**Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2015, one member of the Board of Education elected Social Security. The contribution rate is 6.2 percent of wages.

**Note 10 – Post-Employment Benefits**

**School Employees Retirement System**

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 45 purposes, this plan is considered a cost-sharing, multiple-employer, defined benefit other postemployment benefit (OPEB) plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, and traditional indemnity plans as well as a prescription drug program. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

Access to health care for retirees and beneficiaries is permitted in accordance with Section 3309 of the Ohio Revised Code. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). SERS' Retirement Board reserves the right to change or discontinue any health plan or program. Health care is financed through a combination of employer contributions and retiree premiums, copays and deductibles on covered health care expenses, investment returns, and any funds received as a result of SERS' participation in Medicare programs. 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.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required basic benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. For fiscal year 2015, 0.82 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. For fiscal year 2015, this amount was \$20,450. 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

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Notes to the Basic Financial Statements  
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than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the Educational Service Center's surcharge obligation was \$16,894.

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$25,868, \$20,109, and \$17,172, respectively. The full amount has been contributed for all three fiscal years.

**State Teachers Retirement System of Ohio**

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) 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 reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS which can be obtained by visiting [www.strsoh.org](http://www.strsoh.org) or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS 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. 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 2015, STRS did not allocate any employer contributions to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2015, 2014, and 2013 were \$0, \$18,768, and \$18,196, respectively. The full amount has been contributed for all three fiscal years.

**Note 11 – Employee Benefits**

**Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn 10 to 30 days of vacation per fiscal year, depending upon length of service. Administrators earn 20 to 30 days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit as to the accumulation of the number of sick days. Upon retirement, payment is made for 25 percent of the employees' accumulated sick leave with a maximum payment being limited to 50 days. Unused personal days are converted to sick days for all employees on June 30<sup>th</sup> of each fiscal year.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
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**Other Employee Benefits**

The Educational Service Center provides term life insurance and accidental death and dismemberment insurance to all of its full-time employees through Lincoln National Life Insurance Company.

**125 Plan**

The Educational Service Center provides its full-time employees an option to participate in an I.R.C. Section 125 plan. Money allocated to this plan must be used for expenses covered by that benefit during that fiscal year. Any monies not used by the end of the plan year are forfeited to the General Fund. Employees may elect to have plan benefit dollars applied to a dependent care assistance plan, or an insurance premium payment plan. Participation is renewed annually with each fiscal year beginning August 1 and ending July 31. This plan has been included as an Agency Fund and is administered by Business Plans.

**Note 12 – Leases – Lessee Disclosure**

The Educational Service Center leases building space under non-cancelable operating leases. Operating lease payments are reported as function expenditures in the General Fund. Total operating lease payments in fiscal year 2015 were \$52,065. The total operating lease payments due in fiscal year 2016 are \$52,065.

**Note 13 – Long-Term Obligations**

The changes in the Educational Service Center’s long-term obligations during fiscal year 2015 were as follows:

	Principal Outstanding 6/30/14	Additions	Deductions	Amount Outstanding 6/30/15	Amount Due in One Year
<u>Governmental Activities:</u>					
Net Pension Liability:					
SERS	\$2,176,009	\$0	\$324,109	\$1,851,900	\$0
STRS	5,277,836	0	847,124	4,430,712	0
Total Net Pension Liability	7,453,845	0	1,171,233	6,282,612	0
Compensated Absences	193,589	59,321	36,115	216,795	34,210
Total Governmental Activities Long-Term Obligations	<u>\$7,647,434</u>	<u>\$59,321</u>	<u>\$1,207,348</u>	<u>\$6,499,407</u>	<u>\$34,210</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the General Fund. For additional information related to the net pension liability see note 9.

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 14 – Jointly Governed Organization, Insurance Purchasing Pool and Public Entity Shared Risk Pool**

**Jointly Governed Organization**

The Educational Service Center is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a regional council of governments. SCOCARCoG is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers. The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The Educational Service Center paid SCOCARCoG \$10,743 for services provided during the fiscal year. Financial information can be obtained from the SCOCA Regional Council of Governments, Sandra Benson, Fiscal Officer, at P.O. Box 596, 175 Beaver Creek Rd., Piketon, Ohio, 45661

**Insurance Purchasing Pool**

The Educational Service Center participates in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a five member Board of directors. Each fiscal year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

**Public Entity Shared Risk and Insurance Purchasing Pool**

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide medical insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville–Perry, Georgetown, Ripley Union Lewis Huntington, Southern Hills Joint Vocational, and Western Brown Schools) and two Highland County school districts (Bright Local and Lynchburg–Clay Local School District) along with the Brown County Educational Service Center have entered into an agreement to form the Brown County Schools Benefits Consortium. The Consortium is governed by a nine member board consisting of the superintendents of each participating school district along with the superintendent of the Brown County Educational Service Center. The overall objectives of the consortium are to formulate and administer a program of medical and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with United Healthcare to provide medical insurance directly to consortium member employees. The Educational Service Center pays premiums to the

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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the member district's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, Dental Care Plus. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to the Brown County Educational Service Center at 931 Hamer Road, Georgetown, Ohio 45121.

**Note 15 – Contingencies**

**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, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2015, if applicable, cannot be determined at this time.

**Litigation**

There are currently no matters in litigation with the Educational Service Center as defendant.

**Note 16 – Significant Commitments**

**Encumbrances**

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At fiscal year-end, the amount of encumbrances expected to be honored upon performance by the vendor in the next fiscal year were as follows:

General Fund	<u><u>\$27,529</u></u>
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Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2015

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**Note 17 - 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 the governmental funds. The constraints placed on fund balance for the general fund is presented below:

<u>Fund Balances</u>	<u>General</u>
<i><b>Nonspendable</b></i>	
Inventory	\$93,377
Prepays	<u>4,372</u>
<i>Total Nonspendable</i>	<u>97,749</u>
<i><b>Committed to</b></i>	
Other Purposes	<u>8,000</u>
<i><b>Assigned to</b></i>	
Purchases on Order	<u>19,529</u>
<i>Unassigned</i>	<u>1,654,076</u>
<i>Total Fund Balances</i>	<u><u>\$1,779,354</u></u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability  
School Employees Retirement System of Ohio  
Last Two Fiscal Years (1)

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	<u>2015</u>	<u>2014</u>
Educational Service Center's Proportion of the Net Pension Liability	0.036592%	0.036592%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$1,851,900	\$2,176,009
Educational Service Center's Covered-Employee Payroll	\$1,066,733	\$1,242,191
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	173.60%	175.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.70%	65.52%

Amounts presented as of the Educational Service Center's measurement date which is the prior fiscal year-end.

(1) Information prior to 2013 is not available.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability  
State Teachers Retirement System of Ohio  
Last Two Fiscal Years (1)

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	<u>2015</u>	<u>2014</u>
Educational Service Center's Proportion of the Net Pension Liability	0.01821580%	0.01821580%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,430,712	\$5,277,836
Educational Service Center's Covered-Employee Payroll	\$1,859,029	\$1,819,615
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	238.33%	290.05%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	69.30%

Amounts presented as of the Educational Service Center's measurement date which is the prior fiscal year-end.

(1) Information prior to 2013 is not available.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**  
 Required Supplementary Information  
 Schedule of Educational Service Center Contributions  
 School Employees Retirement System of Ohio  
 Last Ten Fiscal Years

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	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually Required Contribution	\$144,238	\$147,849	\$171,919	\$130,340
Contributions in Relation to the Contractually Required Contribution	<u>(144,238)</u>	<u>(147,849)</u>	<u>(171,919)</u>	<u>(130,340)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered-Employee Payroll	\$1,094,371	\$1,066,733	\$1,242,191	\$969,071
Contributions as a Percentage of Covered-Employee Payroll	13.18%	13.86%	13.84%	13.45%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$144,422	\$121,005	\$95,247	\$98,155	\$89,344	\$79,802
<u>(144,422)</u>	<u>(121,005)</u>	<u>(95,247)</u>	<u>(98,155)</u>	<u>(89,344)</u>	<u>(79,802)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,148,942	\$893,685	\$967,954	\$999,541	\$836,554	\$754,272
12.57%	13.54%	9.84%	9.82%	10.68%	10.58%

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**  
 Required Supplementary Information  
 Schedule of Educational Service Center Contributions  
 State Teachers Retirement System of Ohio  
 Last Ten Fiscal Years

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	2015	2014	2013	2012
Contractually Required Contribution	\$259,664	\$241,182	\$236,550	\$247,854
Contributions in Relation to the Contractually Required Contribution	(259,664)	(241,182)	(236,550)	(247,854)
Contribution Deficiency (Excess)	\$0	\$0	\$0	\$0
Educational Service Center Covered-Employee Payroll	\$1,854,743	\$1,859,029	\$1,819,615	\$1,906,569
Contributions as a Percentage of Covered-Employee Payroll	14.00%	12.97%	13.00%	13.00%

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$247,579	\$268,909	\$271,904	\$263,860	\$246,851	\$238,644
<u>(247,579)</u>	<u>(268,909)</u>	<u>(271,904)</u>	<u>(263,860)</u>	<u>(246,851)</u>	<u>(238,644)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,904,454	\$2,068,531	\$2,091,569	\$2,029,692	\$1,898,854	\$1,835,723
13.00%	13.00%	13.00%	13.00%	13.00%	13.00%

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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*

Brown County Educational Service Center  
Brown County  
9231 Hamer Road  
Georgetown, Ohio 45121

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 General Fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Center) as of and for the year ended June 30, 2015, 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 20, 2017, wherein we noted the Center adopted new accounting guidance in Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

### ***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. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this 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 20, 2017



# Dave Yost • Auditor of State

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

**BROWN 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 9, 2017**