

**BUTLER COUNTY EDUCATIONAL  
SERVICE CENTER**

Basic Financial Statements

Year Ended June 30, 2016

With Independent Auditors' Report







# Dave Yost • Auditor of State

Board of Education  
Butler County Educational Service Center  
400 N. Erie Blvd, Suite A  
Hamilton, Ohio 45011

We have reviewed the *Independent Auditors' Report* of the Butler County Educational Service Center, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2015 through June 30, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

December 29, 2016

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## TABLE OF CONTENTS

Independent Auditors' Report.....	1-3	
Management's Discussion and Analysis .....	4-12	
Basic Financial Statements:		
Government-wide Financial Statements		
Statement of Net Position .....	13	
Statement of Activities.....	14	
Fund Financial Statements:		
Balance Sheet – Governmental Funds .....	15-16	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	17-18	
Statement of Net Position – Fiduciary Funds.....	19	
Statement of Changes in Net Position – Fiduciary Funds .....	20	
Notes to Basic Financial Statements .....	21-44	
Required Supplementary Information:		
Schedule of ESC's Proportionate Share of Net Pension Liability		
School Employees Retirement System of Ohio .....	46	
Schedule of ESC's Proportionate Share of Net Pension Liability		
State Teachers Retirement System of Ohio .....	47	
Schedule of ESC Contributions -		
School Employees Retirement System of Ohio .....	48	
Schedule of ESC Contributions -		
State Teachers Retirement System of Ohio .....	49	
Supplementary Information:		
Schedule of Revenues, Expenditures, and Changes in Fund Balance–		
Budget and Actual (Non-GAAP Budgetary Basis) – General Fund .....	50	
Schedule of Revenues, Expenditures, and Changes in Fund Balance–		
Budget and Actual (Non-GAAP Budgetary Basis) – Federal Head Start .....	51	
Notes to Supplementary Information.....	52	
Additional Information:		
Schedule of Expenditures of Federal Awards .....	53-54	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....		55-56
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by the Uniform Guidance .....		57-58
Schedule of Findings and Questioned Costs.....	59	

## INDEPENDENT AUDITORS' REPORT

To the Governing Board  
Butler County Educational Service Center:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center (the Service Center), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements as listed in the table of contents.

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

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

### *Auditors' Responsibility*

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

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

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

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## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butler County Educational Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the budgetary comparison information on pages 50 through 52 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and budgetary comparison information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards and budgetary comparison information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016 on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Service Center's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
November 18, 2016



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Butler County Educational Service Center (ESC) for the fiscal year ended June 30, 2016. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the ESC's financial statements.

### Financial Highlights

Major financial highlights for fiscal year 2016 are listed below:

- The liabilities and deferred inflows of resources of the ESC exceeded its assets and deferred outflows of resources at year-end by \$22,310,245. The deficit net position balance was driven by the recognition of \$35,874,710 in net pension liabilities.
- In total, net position increased by \$696,679.
- The ESC had \$28,423,615 in expenses related to governmental activities; \$26,669,602 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$2,450,692, made up primarily of State Foundation payments provided additional funding for these programs.
- The General Fund balance increased by \$1,135,910 from \$3,460,259 at June 30, 2015 to \$4,596,169 at June 30, 2016.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the ESC's basic financial statements. The ESC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the ESC's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the ESC's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between these reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the ESC is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. earned but unused vacation leave).

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Management's Discussion and Analysis**

**Year Ended June 30, 2016**

**Unaudited**

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Both of the government-wide financial statements distinguish functions of the ESC that are principally supported by contract services and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the ESC include instruction, support services, administration and operation and maintenance of plant. The ESC has no business-type activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The ESC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the ESC can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The ESC accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the ESC as a whole. Some funds are required to be established by State law. Also, the ESC may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

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

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**A. Net position at year-end**

The following table presents a condensed summary of the ESC's overall financial position at June 30, 2016 and 2015:

	<u><b>FY2016</b></u>	<u><b>FY2015</b></u>
Current and other assets	\$ 10,578,959	\$ 9,980,673
Capital assets	<u>3,310,456</u>	<u>2,813,720</u>
Total assets	<u>13,889,415</u>	<u>12,794,393</u>
Deferred outflows of resources	<u>6,357,037</u>	<u>2,401,083</u>
Other liabilities	1,662,668	1,784,653
Long term liabilities:		
Net pension liability	35,874,710	28,421,334
Other long term liabilities	<u>3,015,241</u>	<u>3,071,487</u>
Total liabilities	<u>40,552,619</u>	<u>33,277,474</u>
Deferred inflows of resources	<u>2,004,078</u>	<u>4,924,926</u>
Net position:		
Net investment in capital assets	905,456	307,720
Restricted:		
Head Start	3,809,797	3,930,323
Other purposes	294,808	362,974
Unrestricted (deficit)	<u>(27,320,306)</u>	<u>(27,607,941)</u>
Total net position	<u>\$ (22,310,245)</u>	<u>\$ (23,006,924)</u>

During 2015, the ESC adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27*, which significantly revised accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the ESC'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.

GASB Statement No. 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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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As required by GASB Statement No. 68, the net pension liability equals the ESC's proportionate share of each plan's collective:

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 ESC 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 Statement No. 68, the ESC'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. The ESC is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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A significant portion of the ESC's net position (\$4,104,605) represents resources that are subject to external restrictions on how they may be used. A portion of the ESC's net position (\$905,456) reflects its net investment in capital assets. Capital assets are used to provide services to citizens and thus, these assets are not available for future spending. Unrestricted net position may be used to meet the ESC's ongoing obligations to students and creditors.

Total assets increased by \$1,095,022, or 9%. Current and other assets increased as the ESC experienced increases in cash and investments and in receivables due to increased demand for speech, occupational and physical therapy and behavior intervention services. Capital assets increased due to purchases of vehicles and classroom technology equipment.

Total liabilities, excluding the net pension liability, decreased by \$178,231. This decrease was attributable to timing of the SERS employer contributions for June 2016 that were paid during June 2016, compared to the prior fiscal year, where SERS employer contributions for June 2015 were paid in July 2015, and continued pay down on the building lease-purchase agreement. The net pension liability increased by \$7.5 million, or 26%, primarily due to decreases in investment earnings in both pension plans during the measurement period.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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**B. Governmental Activities during fiscal year 2016**

The following table presents a condensed summary of the ESC's activities during fiscal year 2016 and 2015 and the resulting change in net position:

	<u><b>FY2016</b></u>	<u><b>FY2015</b></u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 18,524,302	\$ 18,604,652
Operating grants and contributions	<u>8,145,300</u>	<u>8,615,130</u>
Total program revenues	<u>26,669,602</u>	<u>27,219,782</u>
General revenues:		
Grants and entitlements	1,303,244	1,370,196
Investment earnings	8,722	1,979
Miscellaneous	<u>1,138,726</u>	<u>1,133,760</u>
Total general revenues	<u>2,450,692</u>	<u>2,505,935</u>
<b>Total revenues</b>	<u>29,120,294</u>	<u>29,725,717</u>
<b>Expenses:</b>		
Instruction	9,228,654	9,540,994
Support services:		
Pupil	9,021,739	7,955,134
Instructional staff	1,300,911	1,172,169
Governing Board	12,592	16,388
Administration	3,092,503	3,514,249
Fiscal	688,254	704,140
Operation and maintenance of plant	1,543,477	1,521,585
Pupil transportation	54,250	136,310
Central	2,229,890	2,398,342
Community service	1,146,918	954,723
Interest and fiscal charges	<u>104,427</u>	<u>108,744</u>
<b>Total expenses</b>	<u>28,423,615</u>	<u>28,022,778</u>
Change in net position	696,679	1,702,939
Beginning net position	<u>(23,006,924)</u>	<u>(24,709,863)</u>
<b>Ending net position</b>	<u>\$ (22,310,245)</u>	<u>\$ (23,006,924)</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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Of the total governmental activities revenues of \$29,120,294, \$26,669,602 (92%) is from program revenue. This means that the ESC relies on general revenues to provide additional funding for the remaining cost of services provided to the citizens. Of those general revenues, \$1,303,244 (53%) is from state funding.

The ESC experienced a decrease of about \$605,000, or 2%, in total revenue. The majority of this decrease took place in operating grants and contributions, as the Straight A grant program concluded at the end of fiscal year 2015. Total expenses increased by approximately \$400,000, or 1%. The significant increase occurred in pupil support services, as the ESC increased staffing to meet the demand for speech, occupational and physical therapy, and behavior intervention services. Additionally, the ESC recognized increased pension expenses associated with the increase in net pension liabilities.

***Governmental Activities***

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 94% of the cost of the general government programs was recouped in program revenues. Support services costs were \$17,943,616, but program revenue contributed to fund 88% of those costs. Thus, general revenues were used to support of remainder of the support services costs.

<b>Governmental Activities</b>					
		<b>Total Cost of Services</b>	<b>Program Revenue</b>	<b>Revenues as a % of Total Costs</b>	<b>Net Cost of Services</b>
Instruction	\$	9,228,654	10,187,191	110%	(958,537)
Support services		17,943,616	15,807,667	88%	2,135,949
Community service		1,146,918	674,744	59%	472,174
Interest and fiscal charges		<u>104,427</u>	<u>-</u>	0%	<u>104,427</u>
<b>Total</b>	<b>\$</b>	<b><u>28,423,615</u></b>	<b><u>26,669,602</u></b>	<b><u>94%</u></b>	<b><u>1,754,013</u></b>

**FINANCIAL ANALYSIS OF THE ESC'S INDIVIDUAL FUNDS**

**Governmental funds**

The ESC has two major governmental funds: the General Fund and the Federal Head Start Fund. Assets of these two funds comprise \$10,461,411 (96%) of the total \$10,921,959 in governmental funds' assets.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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**General Fund.** Fund balance at June 30, 2016 was \$4,596,169, with an unassigned fund balance of \$4,304,800. The fund balance increased by \$1,135,910. The unassigned fund balance represents approximately 21% of current-year general fund expenditures. The increase in general fund was approximately \$111,000 higher than the previous fiscal year's increase, allowing the ESC to maintain the historical operating margin of approximately 5%.

**Federal Head Start Fund.** This fund is used to account for the activity related to the federal grant for the Head Start program. The fund balance at June 30, 2016 will be used to meet program requirements.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There are no requirements for the ESC identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

The annual appropriation resolution is legally enacted by the ESC at the fund level of expenditures, which is the legal level of budgetary control. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

The schedule comparing the ESC's original and final budgets and actual results is included in the supplementary information. Overall, the final budgets increased from the original budgets as the ESC received data on actual programs provided and adjusted accordingly.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2016, the ESC had \$3,310,456 invested in capital assets, including furniture, equipment, vehicles, and buildings and improvements. See Note 3 to the financial statements for more detail.

**Capital Assets at Year-End  
(Net of Depreciation)**

		<u>FY2016</u>	<u>FY2015</u>
Land	\$	477,184	477,184
Equipment and furniture		856,092	415,647
Vehicles		222,347	88,778
Buildings and improvements		<u>1,754,833</u>	<u>1,832,111</u>
Total	\$	<u><u>3,310,456</u></u>	<u><u>2,813,720</u></u>



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2016**  
**Unaudited**

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**Debt.** The ESC entered into a \$2,937,000 lease-purchase agreement for the purchase and improvement of new office facilities in October 2009 and is scheduled to mature in December 2031. See Note 7 to the financial statements for more detail.

**ECONOMIC FACTORS**

The Ohio Department of Education released an application to educational service centers to identify five high performing areas where they believed they were providing support to school districts at a savings compared to other vendors. If the applications are deemed to prove savings by the Department, the result could be additional dollars for educational service centers.

Additionally, the new State Superintendent is an advocate of educational service centers and may provide new opportunities in the upcoming fiscal year.

**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Butler County Educational Service Center, 400 N. Erie Blvd. Suite A, Hamilton, Ohio 45011.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

## Statement of Net Position

June 30, 2016

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 4,747,990
Receivables:	
Accounts	775,477
Intergovernmental	5,055,492
Nondepreciable capital assets	477,184
Depreciable capital assets, net	<u>2,833,272</u>
<b>Total assets</b>	<u>13,889,415</u>
<b>Deferred Outflows of Resources:</b>	
Pension	<u>6,357,037</u>
<b>Liabilities:</b>	
Accounts payable	125,482
Accrued wages and benefits	1,439,552
Intergovernmental payable	89,453
Accrued interest payable	8,181
Noncurrent liabilities:	
Due within one year	244,841
Due within more than one year:	
Net pension liability	35,874,710
Other amounts due more than one year	<u>2,770,400</u>
<b>Total liabilities</b>	<u>40,552,619</u>
<b>Deferred Inflows of Resources:</b>	
Pension	<u>2,004,078</u>
<b>Net Position:</b>	
Net investment in capital assets	905,456
Restricted for:	
Head Start programs	3,809,797
Other purposes	294,808
Unrestricted (deficit)	<u>(27,320,306)</u>
<b>Total net position</b>	<u><u>\$(22,310,245)</u></u>

See accompanying notes to the basic financial statements.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities  
Year Ended June 30, 2016

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 4,016,422	\$ 5,041,742	\$ -	\$ 1,025,320
Special education	5,212,232	3,584,227	1,561,222	(66,783)
Support services:				
Pupil	9,021,739	5,236,447	3,611,530	(173,762)
Instructional staff	1,300,911	1,028,813	160,197	(111,901)
Governing Board	12,592	-	-	(12,592)
Administration	3,092,503	571,407	1,385,124	(1,135,972)
Fiscal	688,254	-	97,329	(590,925)
Operation and maintenance of plant	1,543,477	885,203	644,271	(14,003)
Pupil transportation	54,250	53,878	-	(372)
Central	2,229,890	2,122,585	10,883	(96,422)
Non-instructional services:				
Community service	1,146,918	-	674,744	(472,174)
Interest and fiscal charges	104,427	-	-	(104,427)
<b>Total Governmental Activities</b>	<b>\$ 28,423,615</b>	<b>\$ 18,524,302</b>	<b>\$ 8,145,300</b>	<b>(1,754,013)</b>
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs				1,303,244
Investment earnings				8,722
Miscellaneous				1,138,726
Total general revenues				2,450,692
Change in net position				696,679
Net position beginning of year				(23,006,924)
Net position end of year				<b>\$ (22,310,245)</b>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Balance Sheet

Governmental Funds

June 30, 2016

	General	Federal Head Start	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and investments	\$ 4,282,946	\$ 255,445	\$ 209,599	\$ 4,747,990
Receivables:				
Accounts	775,477	-	-	775,477
Intergovernmental	496,000	4,308,543	250,949	5,055,492
Interfund receivable	343,000	-	-	343,000
<b>Total assets</b>	<u>5,897,423</u>	<u>4,563,988</u>	<u>460,548</u>	<u>10,921,959</u>
<b>Liabilities:</b>				
Accounts payable	107,201	13,051	5,230	125,482
Accrued wages and benefits	1,071,402	346,062	22,088	1,439,552
Intergovernmental payable	42,564	40,330	6,559	89,453
Interfund payable	-	153,000	190,000	343,000
Compensated absences payable	23,366	9,184	-	32,550
<b>Total liabilities</b>	<u>1,244,533</u>	<u>561,627</u>	<u>223,877</u>	<u>2,030,037</u>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenue	56,721	3,517,298	168,318	3,742,337
<b>Fund Balances:</b>				
Restricted	-	485,063	126,490	611,553
Assigned	291,369	-	-	291,369
Unassigned	4,304,800	-	(58,137)	4,246,663
<b>Total fund balances</b>	<u>4,596,169</u>	<u>485,063</u>	<u>68,353</u>	<u>5,149,585</u>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<u>\$ 5,897,423</u>	<u>\$ 4,563,988</u>	<u>\$ 460,548</u>	<u>\$ 10,921,959</u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Reconciliation of Total Governmental Fund Balances to

Net Position of Governmental Activities

June 30, 2016

Total Governmental Fund Balance		\$	5,149,585
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			3,310,456
Other long-term assets are not available to pay for current-period expenditures and therefore are unavailable in the funds.			3,742,337
Long-term liabilities, including lease purchase and compensated absences, are not due and payable in the current period and therefore are not reported in the funds:			
Lease purchase agreement	(2,405,000)		
Accrued interest	(8,181)		
Compensated absences	<u>(577,691)</u>		(2,990,872)
The net pension liability is not due and payable in the current period, therefore, the liability and related deferred outflows and inflows of resources are not reported in the governmental funds:			
Deferred outflows - pension	6,357,037		
Deferred inflows - pension	(2,004,078)		
Net pension liability	<u>(35,874,710)</u>		<u>(31,521,751)</u>
Net Position of Governmental Activities		\$	<u>(22,310,245)</u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

## Statement of Revenues, Expenditures, and Changes in Fund Balances

## Governmental Funds

Year Ended June 30, 2016

	General	Federal Head Start	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Contractual services	\$ 18,716,264	\$ -	\$ -	\$ 18,716,264
Interest	8,722	-	-	8,722
Intergovernmental	1,303,244	7,751,333	473,281	9,527,858
Other local revenues	<u>1,155,604</u>	<u>-</u>	<u>-</u>	<u>1,155,604</u>
<b>Total revenues</b>	<u>21,183,834</u>	<u>7,751,333</u>	<u>473,281</u>	<u>29,408,448</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,452,814	-	-	4,452,814
Special education	3,553,207	1,179,635	396,292	5,129,134
Support services:				
Pupil	5,191,399	3,537,891	103,123	8,832,413
Instructional staff	1,023,330	162,610	75,546	1,261,486
Governing Board	12,423	-	-	12,423
Administration	1,640,606	1,405,991	1,547	3,048,144
Fiscal	506,880	88,368	10,200	605,448
Business	42,733	-	-	42,733
Operation and maintenance of plant	857,447	638,098	15,534	1,511,079
Pupil transportation	47,710	-	-	47,710
Central	2,099,820	7,679	71,350	2,178,849
Non-instructional services:				
Community service	413,705	684,910	-	1,098,615
Debt Service:				
Principal	101,000	-	-	101,000
Interest and fiscal charges	<u>104,850</u>	<u>-</u>	<u>-</u>	<u>104,850</u>
<b>Total expenditures</b>	<u>20,047,924</u>	<u>7,705,182</u>	<u>673,592</u>	<u>28,426,698</u>
Net change in fund balance	1,135,910	46,151	(200,311)	981,750
Fund balance, beginning of year	<u>3,460,259</u>	<u>438,912</u>	<u>268,664</u>	<u>4,167,835</u>
Fund balance, end of year	<u>\$ 4,596,169</u>	<u>\$ 485,063</u>	<u>\$ 68,353</u>	<u>\$ 5,149,585</u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Reconciliation of the Statement of Revenues, Expenditures  
and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year Ended June 30, 2016

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 981,750</b>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital asset additions	905,499
Depreciation expense	(400,389)
Losses on the sale or disposal of capital assets are reported on the statement of activities and not as expenditures of the governmental funds.	(8,374)
Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	101,000
In the statement of activities, interest is accrued on the outstanding lease-purchase, whereas in governmental funds, an interest expenditure is reported when due.	423
Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current resources and therefore are not reported as expenditures in governmental funds.	(18,502)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(288,154)
Contractually required contributions are reported as expenditures in governmental funds; however, these amounts as deferred outflows of resources in the statement of net position.	2,286,571
Except for amounts reported as deferred outflows or inflows of resources, changes in the net pension liability are reported as pension expense in the statement of activities.	<u>(2,863,145)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 696,679</u></b>

See accompanying notes to the basic financial statements.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Position

Fiduciary Funds

June 30, 2016

	<u>Private Purpose Trusts</u>	<u>Agency Funds</u>
<b>ASSETS</b>		
Equity in pooled cash and investments	\$ 23,206	\$ 981,092
Intergovernmental receivable	<u>-</u>	<u>450,313</u>
Total assets	<u>23,206</u>	<u>1,431,405</u>
<b>LIABILITIES</b>		
Accounts payable	-	496,000
Due to other governments	<u>-</u>	<u>935,405</u>
Total liabilities	<u>-</u>	<u>\$1,431,405</u>
<b>NET POSITION</b>		
Held in trust	<u>\$ 23,206</u>	

See accompanying notes to the basic financial statements.



## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Statement of Changes in Net Position

#### Fiduciary Funds

Year Ended June 30, 2016

	<u>Private- Purpose Trusts</u>
<b>Additions:</b>	
Interest income	\$ 70
Total additions	<u>70</u>
<b>Deductions:</b>	
Community gifts, awards and scholarships	<u>2,000</u>
Total deductions	<u>2,000</u>
Change in net position	(1,930)
Net position, beginning of year	<u>25,136</u>
Net position, end of year	<u><u>\$ 23,206</u></u>

See accompanying notes to the basic financial statements.

# **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

## **Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Butler County Educational Service Center (the "ESC") 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 ESC's accounting policies are described below.

#### **A. Reporting Entity**

Butler County Educational Service Center is the successor to the former Butler County Board of Education. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational ESCs and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board".

The Governing Board consists of 5 members elected by the voters of the County. This board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC provides services to approximately 50,000 students in nine school districts throughout the County.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. This includes general and preschool operations. Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes. The ESC has no component units.

The ESC serves as the fiscal agent for the Butler County Family and Children First Council, but is not accountable as defined in GASB Statement No. 61 for this organization, so these activities have been included in the ESC's financial statements as agency funds. The Family and Children First Council is a separate agency, which provides services to qualified Butler County families and children.

The ESC is associated with two organizations, one of which is defined as an insurance purchasing pool and one is a jointly governed organization. These organizations are the Southwest Ohio Computer Association and the Butler Health Plan. The organizations are presented in Notes 10 and 11 to the basic financial statements.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

## Notes to the Basic Financial Statements

Year Ended June 30, 2016

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### B. Basis of Presentation

***Government-wide Financial Statements.*** The statement of net position and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the ESC that are governmental and those that are considered business-type activities. The ESC has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of the ESC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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 ESC, 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 ESC.

***Fund Financial Statements.*** Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets, current liabilities, and deferred inflow of resources are generally included on the balance sheet. Operating statements of these funds present sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

### C. Fund Accounting

The ESC uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the ESC are grouped into the categories governmental and fiduciary.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

## Notes to the Basic Financial Statements

Year Ended June 30, 2016

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

**General Fund** - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the ESC for any purpose provided it is expended or transferred according to the general laws of Ohio.

**Federal Head Start Fund** – This fund is used to account for the Federal Head Start grants.

**Fiduciary Funds** report on net position and changes in net position. The ESC's fiduciary funds consist of private-purpose trust funds and agency funds. The ESC's private-purpose trust funds account for scholarship programs. These assets are not available for the ESC's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations and are used to account for the ESC's fiscal agent activities.

### D. **Basis of Accounting**

Basis of accounting refers to when revenues and expenses/expenditures are recognized in the accounts and reported in the financial statements and relates to the timing of the measurements made.

The modified accrual basis of accounting is used by the governmental funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the ESC is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, accounts and grants.

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, are not recognized in the governmental funds.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the Basic Financial Statements

Year Ended June 30, 2016

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Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

***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.

Non-exchange transactions, in which the ESC receives value without directly giving 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 been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the ESC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

***Deferred Inflows of Resources.*** In addition to liabilities, the balance sheet 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(s) and so will not be recognized as an inflow of resources until that time. For the ESC, deferred inflows of resources represent receivables that will not be collected within the available period (sixty days after fiscal year-end) and pension. Deferred inflows of resources from unavailable revenue are reported only on the governmental funds' balance sheet. Deferred inflows of resources from pension are reported on the government-wide statement of net position (see Note 5).

***Deferred Outflows 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 represent 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 ESC, deferred outflows of resources are reported on the government-wide statement of net position for pension (see Note 5).

#### **E. Cash and Investments**

To improve cash management, all cash received by the ESC is pooled in central bank accounts. Monies for all funds are maintained in this pool and individual fund integrity is maintained through ESC records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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During fiscal year 2016, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer’s Office that allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at amortized cost, which is the price the investment could be sold for on June 30, 2016.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund except for those specifically related to the private-purpose trust funds in accordance with Board policy.

**F. Capital Assets and Depreciation**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The ESC defines capital assets as those with an individual cost of more than \$500 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets are depreciated except for land. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	10 years
Equipment and furniture	5 years
Building and improvements	20-50 years

**G. Interfund Balances**

On fund financials, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities column of the statement of net position.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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**H. 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 ESC will compensate the employees for the benefits through paid time off or some other means. 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 ESC 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 ESC's termination policy.

The ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and/or 20 years of service regardless of age were considered expected to retire.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only if they have matured, for example, as a result of employee resignations and retirements.

**I. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

**J. 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.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the Basic Financial Statements

Year Ended June 30, 2016

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#### K. Fund Balance

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

***Nonspendable*** – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted to cash. The ESC did not have any nonspendable fund balances at fiscal year-end.

***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 a formal action (resolution) of the ESC Governing Board. Those committed amounts cannot be used for any other purpose unless the ESC Governing 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. The ESC did not have any committed fund balances at fiscal year-end.

***Assigned*** – Amounts in the assigned fund balance classification are intended to be used by the ESC 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 ESC Governing Board. The Board has authorized the Treasurer to assign fund balance for purchases on order provided those 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 balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The ESC 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.



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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**L. Net Position**

Net position represents the difference between assets and deferred outflows of resources, reduced by liabilities and deferred inflows of resources. Net investment in capital assets 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 ESC or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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

**M. 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.

**2. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the ESC into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC 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 ESC has identified as not required for use within the current two 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.

Protection of the ESC's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by Surety Company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).
7. Commercial paper notes issued by any corporation for profit that is incorporated under the laws of the United States or any state pursuant to specifications within Ohio Revised Code.
8. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations meet specifications within Ohio Revised Code.

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the ESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

Deposits

*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the ESC's deposits may not be returned to it. The ESC does not have a custodial credit risk policy. At year-end, \$2,606,562 of the ESC's bank balance of \$3,360,091 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the ESC's name.

Investments

The ESC's investments at June 30, 2016 consist of an investment in STAR Ohio of \$2,948,909, which is valued at the net asset value per share provided by STAR Ohio on an amortized cost method which approximates fair value. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

**3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016 was as follows:

	<u>Balance 7/1/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/16</u>
<b><i>Governmental Activities</i></b>				
<b>Nondepreciable:</b>				
Land	\$ 477,184	\$ -	\$ -	\$ 477,184
<b>Depreciable:</b>				
Equipment and furniture	1,613,936	731,893	(117,524)	2,228,305
Vehicles	219,493	173,606	(33,201)	359,898
Buildings and improvements	<u>2,213,760</u>	<u>-</u>	<u>-</u>	<u>2,213,760</u>
Subtotal	<u>4,047,189</u>	<u>905,499</u>	<u>(150,725)</u>	<u>4,801,963</u>
Totals at historical cost	<u>4,524,373</u>	<u>905,499</u>	<u>(150,725)</u>	<u>5,279,147</u>
Less accumulated depreciation:				
Equipment and furniture	1,198,289	283,074	(109,150)	1,372,213
Vehicles	130,715	40,037	(33,201)	137,551
Buildings and improvements	<u>381,649</u>	<u>77,278</u>	<u>-</u>	<u>458,927</u>
Total accumulated depreciation	<u>1,710,653</u>	<u>400,389</u>	<u>(142,351)</u>	<u>1,968,691</u>
Capital assets, net	<u>\$ 2,813,720</u>	<u>\$ 505,110</u>	<u>\$ (8,374)</u>	<u>\$ 3,310,456</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 1,489
Special	9,025
Support services:	
Pupil	106,657
Administration	253,846
Fiscal	1,309
Operation and maintenance of plant	5,752
Pupil transportation	4,119
Central	<u>18,192</u>
Total depreciation expense	<u>\$ 400,389</u>

**4. RISK MANAGEMENT**

The ESC maintains comprehensive insurance with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property damage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

**5. 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 ESC'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.

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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 contractually-required contributions 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*** – ESC 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:

Benefits	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% for the first 30 years of service and 2.5% for years of service credit over 30. Final average salary is the average of the highest three years of salary.

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.

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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**Funding Policy** – Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14% 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% for plan members and 14% 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, 2016, the allocation to pension, death benefits, and Medicare B was 14%.

The ESC's contractually required contribution to SERS was \$1,299,903 for fiscal year 2016. Of this amount, \$89,453 is reported as an intergovernmental payable.

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

**Plan Description** – ESC 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% 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 2% of the original base benefit. For members retiring August 1, 2013, or later, the first 2% is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with 5 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 year of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5% of the 14% employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5% of the 14% employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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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 5 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 1% July 1, 2014, and will be increased 1% each year until it reaches 14% on July 1, 2016. For the fiscal year ended June 30, 2016, plan members were required to contribute 13% of their annual covered salary. The ESC was required to contribute 14%; the entire 14% was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The ESC's contractually required contribution to STRS was \$986,668 for fiscal year 2016.

### ***Pension Liabilities, Pension Expense, and Deferred Outflows and Inflows of Resources for Pensions***

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The ESC's proportion of the net pension liability was based on the ESC's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share and pension expense:

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$18,931,306	\$16,943,404	\$35,874,710
Proportion of the Net Pension Liability	0.3317733%	0.06130679%	
Pension Expense	\$1,819,562	\$1,043,583	\$2,863,145

At June 30, 2016, the ESC 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	\$ 304,828	\$ 772,405	\$ 1,077,233
Change in ESC's proportionate share	1,850,498	1,095,646	2,946,144
Difference between actual contributions and proportionate share of contributions	-	47,089	47,089
ESC contributions subsequent to the measurement date	<u>1,299,903</u>	<u>986,668</u>	<u>2,286,571</u>
Total Deferred Outflows of Resources	<u>\$ 3,455,229</u>	<u>\$ 2,901,808</u>	<u>\$ 6,357,037</u>

<b>Deferred Inflows of Resources</b>			
Net difference between projected and actual earnings on pension plan investments	\$ 627,255	\$ 1,218,551	\$ 1,845,806
Difference between actual contributions and proportionate share of contributions	<u>158,272</u>	<u>-</u>	<u>158,272</u>
Total Deferred Inflows of Resources	<u>\$ 785,527</u>	<u>\$ 1,218,551</u>	<u>\$ 2,004,078</u>

\$2,286,571 reported as deferred outflows of resources related to pension resulting from ESC contributions subsequent to the measurement date will be recognized as a reduction of net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and 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>
2017	\$ 312,858	\$ 10,698	\$ 323,556
2018	312,858	10,698	323,556
2019	311,415	10,698	322,113
2020	<u>432,668</u>	<u>664,495</u>	<u>1,097,163</u>
	<u>\$ 1,369,799</u>	<u>\$ 696,589</u>	<u>\$ 2,066,388</u>



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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*Actuarial Assumptions - SERS*

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25%
Future Salary Increases, including Inflation	4.00% to 22.00%
COLA or Ad Hoc COLA	3.00%
Investment Rate of Return	7.75% net of investment 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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
U.S. Stocks	22.50	5.00
Non-U.S. Stock	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Estate	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

**Discount Rate** – Total pension liability was calculated using the discount rate of 7.75%. 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%). 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 ESC'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%, 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%), or one percentage point higher (8.75%) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$26,250,919	\$18,931,306	\$12,767,589

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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*Actuarial Assumptions - STRS*

The total pension liability in the July 1, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases	12.25% at age 20 to 2.75% at age 70
Investment Rate of Return	7.75% net of investment expenses
COLA	2% simple applied as follows: for members retiring before August 1, 2013, 2% per year; for members retiring August 1, 2013 or later, 2% COLA paid on fifth anniversary of retirement date.

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, 2015, 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>100.00</u> %	

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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**Discount Rate** – The discount rate used to measure the total pension liability was 7.75% as of June 30, 2015. 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, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75% was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

**Sensitivity of the ESC's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** – The following table presents the ESC's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75%, as well as what the ESC'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%) or one-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
ESC's proportionate share of the net pension liability	\$23,535,666	\$16,943,404	\$11,368,663

**Social Security System**

All employees not covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2016, members of the Governing Board have elected social security. The Board's liability is 6.2% of wages paid.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**6. POSTEMPLOYMENT BENEFITS**

*School Employees Retirement System*

*Health Care Plan* – Sections 3309.375 and 3309.69 of the Ohio Revised Code permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMOs, PPOs, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The Ohio Revised Code provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plan.

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder for the employer 14% contribution to the Health Care Fund in accordance with the funding policy. For the fiscal year ended June 30, 2016, the health care allocation is 0.00%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. By statute, no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2016, this amount was \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2016, the ESC's surcharge obligation was \$89,453.

None of the 14% employer contribution was allocated to the Health Care Fund for the fiscal year 2016. The ESC's contributions for health care for the fiscal years June 30, 2015 and 2014 were \$70,000 and \$12,000, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2016**

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*State Teachers Retirement System*

*Plan Description* – The ESC 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 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 years 2016 and 2015, STRS did not allocate any employer contributions to post-employment health care. The ESC’s contributions for health care for the fiscal year ended June 30, 2014 was \$57,000.

**7. LONG-TERM OBLIGATIONS**

The changes in the ESC's long-term obligations during fiscal year 2016 were as follows:

	Balance 7/1/15	Additions	Reductions	Balance 6/30/16	Due within One Year
Lease-Purchase Agreement	\$ 2,506,000	\$ -	\$ (101,000)	\$ 2,405,000	\$ 106,000
Compensated Absences	565,487	145,670	(100,916)	610,241	138,841
Net Pension Liability					
STRS	13,746,725	3,196,679	-	16,943,404	-
SERS	14,674,609	4,256,697	-	18,931,306	-
Total	<u>\$ 31,492,821</u>	<u>\$ 7,599,046</u>	<u>\$ (201,916)</u>	<u>\$ 38,889,951</u>	<u>\$ 244,841</u>

In October, 2009, the ESC entered into a lease-purchase agreement in the amount of \$2,937,000 for the purchase of a building and improvements through U.S. Bank. The final payment will be made in December 2031. Principal and interest payments were made from the General Fund. The land, building, improvements, and equipment acquired by this lease-purchase agreement were \$2,900,000.

The following is a schedule of future minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2016:

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

Fiscal Year Ending June 30,	
2017	\$ 206,430
2018	206,797
2019	205,973
2020	206,934
2021	207,639
2022 - 2026	1,037,213
2027 - 2031	1,041,345
2032	<u>208,355</u>
Total	3,320,686
Less amount representing interest	<u>(915,686)</u>
Present value of minimum lease payments	\$ <u><u>2,405,000</u></u>

**8. FUND BALANCES**

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

Fund Balances	General	Federal Head Start	Other Governmental Funds	Total Governmental Funds
<b><i>Restricted for</i></b>				
Early Childhood Education	\$ -	\$ -	\$ 11,182	\$ 11,182
Home Choice	-	-	115,308	115,308
Federal Head Start	-	<u>485,063</u>	-	<u>485,063</u>
<b><i>Total Restricted</i></b>	-	485,063	126,490	611,553
<b><i>Assigned to</i></b>				
Public School Support	19,308	-	-	19,308
Severances	20,000	-	-	20,000
Encumbrances	<u>252,061</u>	-	-	<u>252,061</u>
<b><i>Total Assigned</i></b>	291,369	-	-	291,369
<b><i>Unassigned (Deficit)</i></b>	<u>4,304,800</u>	-	<u>(58,137)</u>	<u>4,246,663</u>
<b><i>Total Fund Balance</i></b>	<u>\$ 4,596,169</u>	<u>\$ 485,063</u>	<u>\$ 68,353</u>	<u>\$ 5,149,585</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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At June 30, 2016, the ESC had a deficit balance in the following fund:

Miscellaneous State Grants Fund	\$58,137
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The deficit fund balance was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**9. INTERFUND TRANSACTIONS**

Interfund transactions at June 30, 2016 consisted of the following:

	Interfund	
	Receivable	Payable
General Fund	\$ 343,000	\$ -
Federal Head Start Fund	-	153,000
Other Governmental Funds	-	190,000
	<hr/>	<hr/>
Total	<u>\$ 343,000</u>	<u>\$ 343,000</u>

The interfund loans were made to provide operating capital.

**10. JOINTLY GOVERNED ORGANIZATION**

*Southwestern Ohio Computer Association*

The Southwestern Ohio Computer Association (SWOCA), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the three county consortium supports SWOCA based upon per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of member districts. The degree of control exercised by any participating district is limited to its representation on the Board. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2016**

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**11. INSURANCE PURCHASING POOL**

*Butler Health Plan*

The ESC participates in the Butler Health Plan (BHP), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. Financial information can be obtained from BHP at PO Box 526, Middletown, Ohio 45042.

**12. CONTINGENCIES**

**Grants**

The ESC received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2016.

**Litigation**

As of the balance sheet date, the ESC was not party to legal proceedings.

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## **Required Supplementary Information**

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## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Required Supplementary Information

Schedule of ESC's Proportionate Share of the Net Pension Liability

School Employees Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's Proportion of the Net Pension Liability	0.3317733%	0.289958%	0.289958%
ESC's Proportionate Share of the Net Pension Liability	\$18,931,306	\$14,674,609	\$17,242,872
ESC's Covered-Employee Payroll	\$ 9,025,015	\$ 8,510,707	\$ 8,123,931
ESC's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	209.76%	172.43%	212.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.16%	71.70%	65.52%

(1) Information prior to 2013 is not available. The ESC will continue to present information for years available until a full ten-year trend is compiled.

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information

Schedule of ESC's Proportionate Share of the Net Pension Liability

State Teachers Retirement System of Ohio

Last Three Measurement Periods (1)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
ESC's Proportion of the Net Pension Liability	0.06130679%	0.05651632%	0.05651632%
ESC's Proportionate Share of the Net Pension Liability	\$16,943,404	\$13,746,725	\$16,375,008
ESC's Covered-Employee Payroll	\$ 6,816,764	\$ 6,218,592	\$ 5,581,162
ESC's Proportionate Share of Net Pension Liability as a Percentage of its Covered-Employee Payroll	248.55%	221.06%	293.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.09%	74.70%	69.30%

(1) Information prior to 2013 is not available. The ESC will continue to present information for years available until a full ten-year trend is compiled.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Required Supplementary Information  
Schedule of ESC Contributions  
School Employees Retirement System of Ohio  
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 1,299,903	\$ 1,189,497	\$ 1,179,584	\$ 1,124,352
Contributions in Relation to the Contractually Required Contributions	<u>(1,299,903)</u>	<u>(1,189,497)</u>	<u>(1,179,584)</u>	<u>(1,124,352)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC Covered- Employee Payroll	\$ 9,285,021	\$ 9,025,015	\$ 8,510,707	\$ 8,123,931
Contributions as a Percentage of Covered- Employee Payroll	14.00%	13.18%	13.86%	13.84%

(1) The ESC elected not to present information prior to 2013. The ESC will continue to present information for years available until a full ten-year trend is compiled.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Required Supplementary Information  
Schedule of ESC Contributions  
State Teachers Retirement System of Ohio  
Last Four Fiscal Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 986,668	\$ 954,347	\$ 808,417	\$ 725,551
Contributions in Relation to the Contractually Required Contributions	<u>(986,668)</u>	<u>(954,347)</u>	<u>(808,417)</u>	<u>(725,551)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
ESC Covered- Employee Payroll	\$ 7,047,629	\$ 6,816,764	\$ 6,218,592	\$ 5,581,162
Contributions as a Percentage of Covered- Employee Payroll	14.00%	14.00%	13.00%	13.00%

(1) The ESC elected not to present information prior to 2013. The ESC will continue to present information for years available until a full ten-year trend is compiled.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund  
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
 General Fund  
 Year Ended June 30, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Contractual services	\$ 20,060,439	\$ 18,628,207	\$ 18,628,207	\$ -
Earnings on investments	1,957	8,722	8,722	-
Intergovernmental	1,297,000	1,303,244	1,303,244	-
Other local revenues	883,144	1,518,991	1,518,991	-
<b>Total revenues</b>	<u>22,242,540</u>	<u>21,459,164</u>	<u>21,459,164</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	4,485,320	4,821,320	5,041,063	(219,743)
Special education	3,506,273	3,726,977	3,605,572	121,405
Support services:				
Pupil	4,722,979	5,376,382	5,270,059	106,323
Instructional staff	843,785	928,785	1,034,165	(105,380)
Governing Board	10,700	10,700	11,995	(1,295)
Administration	1,796,812	1,971,815	1,693,689	278,126
Fiscal	712,903	712,903	527,543	185,360
Business	88,997	88,997	45,622	43,375
Operation and maintenance of plant	836,664	854,664	890,506	(35,842)
Pupil transportation	49,787	49,787	54,021	(4,234)
Central	1,690,139	2,199,139	2,176,537	22,602
Non-instructional services	260,500	356,300	415,666	(59,366)
Debt Service	-	102,000	205,850	(103,850)
<b>Total expenditures</b>	<u>19,004,859</u>	<u>21,199,769</u>	<u>20,972,288</u>	<u>227,481</u>
Excess of revenues over expenditures	3,237,681	259,395	486,876	227,481
<b>Other financing sources (uses):</b>				
Transfers in	-	51,410	51,410	-
Advances in	781,400	781,400	781,400	-
Advances out	-	(1,102,000)	(881,000)	221,000
Other financing sources	200,000	112	112	-
<b>Total other financing sources (uses):</b>	<u>981,400</u>	<u>(269,078)</u>	<u>(48,078)</u>	<u>221,000</u>
Change in fund balance	4,219,081	(9,683)	438,798	\$ 448,481
Fund balance, beginning of year	3,132,982	3,132,982	3,132,982	
Prior year encumbrances appropriated	323,341	323,341	323,341	
Fund balance, end of year	<u>\$ 7,675,404</u>	<u>\$ 3,446,640</u>	<u>\$ 3,895,121</u>	

See accompanying notes to supplementary information.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund  
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
 Federal Head Start Fund  
 Year Ended June 30, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 4,611,855	\$ 8,658,741	\$ 7,837,200	\$ (821,541)
<b>Expenditures:</b>				
Current:				
Instruction:				
Special education	1,737,250	3,302,730	1,212,540	2,090,190
Support services:				
Pupil	1,522,888	1,829,757	3,626,148	(1,796,391)
Instructional staff	29,352	164,277	164,697	(420)
Administration	835,457	1,727,477	1,454,914	272,563
Fiscal	16,030	114,669	88,895	25,774
Operation and maintenance of plant	663,259	1,257,858	669,518	588,340
Central	568	17,703	7,711	9,992
Non-instructional services	103,997	778,216	710,979	67,237
<b>Total expenditures</b>	<u>4,908,801</u>	<u>9,192,687</u>	<u>7,935,402</u>	<u>1,257,285</u>
Excess of revenues over/(under) expenditures	(296,946)	(533,946)	(98,202)	435,744
<b>Other financing sources (uses):</b>				
Advances in	-	237,000	237,000	-
Advances out	-	-	(338,000)	(338,000)
<b>Total other financing sources (uses):</b>	<u>-</u>	<u>237,000</u>	<u>(101,000)</u>	<u>(338,000)</u>
Change in fund balance	(296,946)	(296,946)	(199,202)	\$ 97,744
Fund balance, beginning of year	32,589	32,589	32,589	
Prior year encumbrances appropriated	264,357	264,357	264,357	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,744</u>	

See accompanying notes to supplementary information.



## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to Supplementary Budgetary Information

Year Ended June 30, 2016

### Note A Budgetary Basis of Accounting

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the legal level of control. Appropriation amounts are as originally adopted, or as amended by the ESC through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the ESC during the current fiscal year. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as restricted or assigned fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>	<u>Federal Head Start</u>
Net change in fund balance - GAAP Basis	\$ 1,135,910	\$ 46,151
Increase / (decrease):		
Due to inclusion of Public School Support Fund	(3,287)	-
Due to revenues	278,767	85,867
Due to expenditures	(572,559)	(72,520)
Due to other sources (uses)	(48,078)	(101,000)
Due to encumbrances	<u>(351,955)</u>	<u>(157,700)</u>
Net change in fund balance - Budget Basis	<u>\$ 438,798</u>	<u>\$ (199,202)</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2016

<u>Federal Grantor/Program Title</u>	<u>Pass-through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Child Care and Adult Care Food Program	2015	10.558	\$ 198,833	198,833
Child Care and Adult Care Food Program	2016	10.558	<u>200,052</u>	<u>200,052</u>
Total U.S. Department of Agriculture			<u>398,885</u>	<u>398,885</u>
<u>U.S. Department of Health and Human Services:</u>				
Head Start	05CH8373-02-02	93.600	3,866,879	3,866,879
Head Start	05CH8373-03-01	93.600	2,392,069	2,391,502
Head Start	05CH8352-03-02	93.600	643,800	643,800
Head Start	05CH8352-04-01	93.600	<u>286,567</u>	<u>286,567</u>
			<u>7,189,315</u>	<u>7,188,748</u>
Money Follows the Person Rebalancing Demonstration	n/a	93.791	<u>25,462</u>	<u>25,462</u>
Block Grants for Prevention and Treatment of Substance Abuse	2015	93.959	-	12,961
Block Grants for Prevention and Treatment of Substance Abuse	2016	93.959	<u>32,082</u>	<u>32,261</u>
			<u>32,082</u>	<u>45,222</u>
Total U.S. Department of Health and Human Services			<u>7,246,859</u>	<u>7,259,432</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Health)</i>				
Help Me Grow	00950011HG0615	84.181	70,322	15,790
Help Me Grow	00950011HG0716	84.181	<u>449,099</u>	<u>516,085</u>
			<u>519,421</u>	<u>531,875</u>
Total U.S. Department of Education			<u>519,421</u>	<u>531,875</u>
Total Federal Awards			\$ <u>8,165,165</u>	<u>8,190,192</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
Schedule of Expenditures of Federal Awards (continued)  
Year Ended June 30, 2016

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**NOTE A - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Butler County Educational Service Center (the "Center") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Center.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Center has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE C - MATCHING REQUIREMENTS**

Certain federal programs require the Center contribute non-federal funds (matching funds) to support the federally-funded programs. The Center has complied with the matching requirements. The expenditures of non-federal matching funds is not included on the schedule.

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

**INDEPENDENT AUDITORS' REPORT**

To the Governing Board  
Butler County Educational Service Center:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center ("Service Center") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Service Center's basic financial statements, and have issued our report thereon dated November 18, 2016.

**Internal Control Over Financial Reporting**

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

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

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

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## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
November 18, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE BY THE UNIFORM GUIDANCE**

**INDEPENDENT AUDITORS' REPORT**

To the Governing Board  
Butler County Educational Service Center:

**Report on Compliance for Each Major Federal Program**

We have audited Butler County Educational Service Center's ("Service Center") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Service Center's major federal programs for the year ended June 30, 2016. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

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

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

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### **Opinion on Each Major Federal Program**

In our opinion, the Service Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

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

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

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

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

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
November 18, 2016

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued :	unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

**Federal Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)?	none
Identification of major programs:	
<i>CFDA 93.600 – Head Start</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$750,000
Auditee qualified as low-risk auditee?	yes

**Section II - Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Schedule of Prior Year Findings**

None





# Dave Yost • Auditor of State

**BUTLER EDUCATIONAL SERVICE CENTER**

**BUTLER 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  
JANUARY 10, 2017**