



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2014
Fiscal Year Audited Under GAGAS: 2014

**BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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Independent Auditor's Report

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Center) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Brown County Education Service Center, Brown County, Ohio as of June 30, 2014, and the respective changes in its financial position thereof for the year then ended in accordance with the 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 this presentation to include *Management's discussion and analysis*, listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 16, 2014

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

As management of the Brown County Educational Service Center, we offer readers of the Brown County Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

The assets of the Educational Service Center exceeded its liabilities at June 30, 2014, by \$1,558,909.

In total, net position increased \$77,571, due to revenues exceeding expenses.

Using the Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Brown County Educational Service Center as a financial whole, or an entire operating entity.

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

Reporting the Brown County Educational Service Center as a Whole

One of the most important questions asked about the Educational Service Center is "How did we do financially during fiscal year 2014?" The Statement of Net Position and the Statement of Activities, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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

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

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

Fund Financial Statements

Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's major fund, which is the General Fund.

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

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

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net position for fiscal years 2014 and 2013:

(Table 1)
Net Position

	Governmental Activities		Change
	2014	2013	
Assets			
Current and Other Assets	\$2,198,845	\$2,157,411	\$41,434
Capital Assets, Net	17,081	22,973	(5,892)
Total Assets	<u>2,215,926</u>	<u>2,180,384</u>	<u>35,542</u>
Liabilities			
Other Liabilities	463,428	520,670	(57,242)
Long-Term Liabilities	193,589	178,376	15,213
Total Liabilities	<u>657,017</u>	<u>699,046</u>	<u>(42,029)</u>
Net Position			
Net Investment in Capital Assets	17,081	22,973	(5,892)
Unrestricted	1,541,828	1,458,365	83,463
Total Net Position	<u>\$1,558,909</u>	<u>\$1,481,338</u>	<u>\$77,571</u>

Table 1 is a comparison of the composition of net position of governmental activities as of June 30, 2014 and 2013. Total net position increased during the fiscal year due to several factors. Net investment in capital assets decreased due to depreciation expense exceeding additions for the year as well as the disposal of assets during the move to the new facility. Unrestricted net position increased due to the Educational Service Center using less materials and supplies and closely monitoring all other expenses.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for fiscal years 2014 and 2013.

(Table 2)
Changes in Net Position

	Governmental Activities		Change
	2014	2013	
Revenues			
Program Revenues:			
Charges for Services	\$3,820,677	\$3,507,980	\$312,697
Operating Grants and Contributions	444,241	785,819	(341,578)
Total Program Revenues	<u>4,264,918</u>	<u>4,293,799</u>	<u>(28,881)</u>
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs	282,812	175,566	107,246
Investment Earnings	7,385	6,562	823
Miscellaneous	7,689	0	7,689
Total General Revenues	<u>297,886</u>	<u>182,128</u>	<u>115,758</u>
Total Revenues	<u>4,562,804</u>	<u>4,475,927</u>	<u>86,877</u>
Program Expenses			
Instruction:			
Regular	552,482	500,372	52,110
Special	1,763,909	1,735,820	28,089
Support Services:			
Pupils	1,075,244	1,130,394	(55,150)
Instructional Staff	483,390	413,838	69,552
Board of Education	29,678	38,576	(8,898)
Administration	230,721	235,204	(4,483)
Fiscal	152,502	160,113	(7,611)
Business	1,000	0	1,000
Operation and Maintenance of Plant	68,776	62,791	5,985
Pupil Transportation	9,400	0	9,400
Central	118,131	173,500	(55,369)
Total Expenses	<u>4,485,233</u>	<u>4,450,608</u>	<u>34,625</u>
Change in Net Position	77,571	25,319	<u>\$52,252</u>
Net Position at Beginning of Year	<u>1,481,338</u>	<u>1,456,019</u>	
Net Position at End of Year	<u><u>\$1,558,909</u></u>	<u><u>\$1,481,338</u></u>	

Charges for services increased due to additional local contracted service by over \$220,000, and additional outside contracted services provided by supervisors, identification, and special support services by over \$90,000 and an increase of 8 contracted service employees, however contracted

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

services provided by supervisors, identification and special support services helped to support this reduction. Operating grants and contributions decreased due to fewer grants received during the fiscal year. Regular instruction, special instruction, and support services instructional staff increased from the prior year due to less retirements in the current fiscal year compared to fiscal year 2013 and an increase of eight contracted service personnel.

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

(Table 3)
Governmental Activities

	Total Cost of Services 2014	Total Cost of Services 2013	Net Cost of Services 2014	Net Cost of Services 2013
Instruction	\$2,316,391	\$2,236,192	(\$124,208)	(\$46,527)
Support Services	2,168,842	2,214,416	(96,107)	203,336
Total Expenses	\$4,485,233	\$4,450,608	(\$220,315)	\$156,809

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 11. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$4,552,651 and expenditures of \$4,464,128.

The fund balance in the General Fund increased \$88,523. This was mainly due to a decrease in the payout of severance compared to the prior fiscal year and continued efforts to monitor expenditures as state funding continues to decrease.

General Fund - Budget Highlights

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

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Capital Assets

At the end of fiscal year 2014 the Educational Service Center had \$17,081 invested in capital assets.

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

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Furniture and Equipment	<u>\$17,081</u>	<u>\$22,973</u>

For more information on capital assets, see note 5 to the basic financial statements.

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information contact Sarah Frydryk, Treasurer, Brown County Educational Service Center, 9231 Hamer Road, Georgetown, Ohio, 45121.

Brown County Educational Service Center

Statement of Net Position

June 30, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,086,497
Materials and Supplies Inventory	93,506
Accrued Interest Receivable	168
Intergovernmental Receivable	15,377
Prepaid Items	3,297
Depreciable Capital Assets, Net	<u>17,081</u>
 Total Assets	 <u>2,215,926</u>
Liabilities	
Accounts Payable	24,652
Accrued Wages and Benefits Payable	307,794
Intergovernmental Payable	130,982
Long-Term Liabilities:	
Due Within One Year	38,980
Due in More Than One Year	<u>154,609</u>
 Total Liabilities	 <u>657,017</u>
Net Position	
Net Investment in Capital Assets	17,081
Unrestricted	<u>1,541,828</u>
 Total Net Position	 <u><u>\$1,558,909</u></u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2014

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$552,482	\$301,059	\$252,000	\$577
Special	1,763,909	1,540,333	98,791	(124,785)
Support Services:				
Pupils	1,075,244	1,093,890	0	18,646
Instructional Staff	483,390	294,223	83,050	(106,117)
Board of Education	29,678	0	0	(29,678)
Administration	230,721	238,711	0	7,990
Fiscal	152,502	144,625	0	(7,877)
Business	1,000	0	1,000	0
Operation and Maintenance of Plant	68,776	69,929	0	1,153
Pupil Transportation	9,400	0	9,400	0
Central	118,131	137,907	0	19,776
Total Governmental Activities	<u>\$4,485,233</u>	<u>\$3,820,677</u>	<u>\$444,241</u>	<u>(220,315)</u>
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				282,812
Investment Earnings				7,385
Miscellaneous				7,689
Total General Revenues				297,886
Change in Net Position				77,571
Net Position at Beginning of Year				1,481,338
Net Position at End of Year				\$1,558,909

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2014

	<u>General</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,086,497
Materials and Supplies Inventory	93,506
Accrued Interest Receivable	168
Intergovernmental Receivable	15,377
Prepaid Items	<u>3,297</u>
Total Assets	<u><u>\$2,198,845</u></u>
Liabilities	
Accounts Payable	\$24,652
Accrued Wages and Benefits Payable	307,794
Intergovernmental Payable	<u>130,982</u>
Total Liabilities	<u>463,428</u>
Deferred Inflows of Resources	
Unavailable Revenue	<u>10,153</u>
Fund Balance	
Nonspendable	96,803
Committed	7,000
Assigned	17,652
Unassigned	<u>1,603,809</u>
Total Fund Balance	<u>1,725,264</u>
Total Liabilities and Fund Balance	<u><u>\$2,198,845</u></u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 June 30, 2014

Total Governmental Fund Balances \$1,725,264

*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. These assets consist of:

Capital assets	117,532	
Accumulated depreciation	<u>(100,451)</u>	
Total capital assets		17,081

Some of the Educational Service Center's revenues will be collected after fiscal year-end, but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.

Customer Sales and Services	10,153
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Compensated absences are not due and payable in the current period and therefore are not reported in the funds.

<u>(193,589)</u>

Net Position of Governmental Activities

<u><u>\$1,558,909</u></u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Intergovernmental	\$366,663	\$360,390	\$727,053
Interest	7,385	0	7,385
Tuition and Fees	108,909	0	108,909
Customer Sales and Services	3,701,615	0	3,701,615
Miscellaneous	7,689	0	7,689
	<u>4,192,261</u>	<u>360,390</u>	<u>4,552,651</u>
Expenditures			
Current:			
Instruction:			
Regular	289,613	252,000	541,613
Special	1,729,610	14,940	1,744,550
Support Services:			
Pupils	1,075,549	0	1,075,549
Instructional Staff	396,782	83,050	479,832
Board of Education	29,678	0	29,678
Administration	236,324	0	236,324
Fiscal	141,162	0	141,162
Business	0	1,000	1,000
Operation and Maintenance of Plant	68,776	0	68,776
Pupil Transportation	0	9,400	9,400
Central	136,244	0	136,244
	<u>4,103,738</u>	<u>360,390</u>	<u>4,464,128</u>
Total Expenditures	<u>4,103,738</u>	<u>360,390</u>	<u>4,464,128</u>
Net Changes in Fund Balances	88,523	0	88,523
Fund Balances at Beginning of Year	<u>1,636,741</u>	<u>0</u>	<u>1,636,741</u>
Fund Balances at End of Year	<u>\$1,725,264</u>	<u>\$0</u>	<u>\$1,725,264</u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2014

Net Change in Fund Balances - Total Governmental Funds \$88,523

*Amounts reported for governmental activities in the
 Statement of Activities are different because:*

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

Capital asset additions	3,202	
Depreciation expense	<u>(7,082)</u>	
Excess of depreciation over capital outlay expense		(3,880)

The cost of the capital assets are removed from the capital asset account in the Statement of Net Position and offset against the proceeds from sale of capital assets resulting in a loss on sale of capital assets in the Statement of Activities. (2,012)

Because some revenues will not be collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are not reported as revenues in the funds.
 Customer Sales and Services 10,153

Some items reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:
 Increase in compensated absences (15,213)

Change in Net Position of Governmental Activities \$77,571

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
Statement of Fiduciary Assets and Liabilities
June 30, 2014

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$3,659,945</u>
Liabilities	
Undistributed Monies	<u>\$3,659,945</u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

The Brown County Educational Service Center (the “Educational Service Center”) operates under a Governing Board as defined by Section 3313.01 of the Ohio Revised Code. The Brown County Governing Board was chartered to operate by the State Board of Education on June 10, 1968. The Governing Board consists of five members elected at large for staggered four year terms. The Educational Service Center is an administrative entity providing supervision and certain other services to local school districts located in Brown County. The Educational Service Center employs 40 certified and 55 classified staff members, and provides services to the local and exempted village school districts.

Reporting Entity

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Educational Service Center. The Educational Service Center has no component units.

The Educational Service Center participates in a jointly governed organization, insurance purchasing pool, and public entity shared risk and insurance purchasing pool. These organizations are discussed in Note 13 to the basic financial statements. These organizations are:

Jointly Governed Organization

South Central Ohio Computer Association Regional Council of Governments

Insurance Purchasing Pool

Ohio Association of School Business Officials Workers’ Compensation

Group Rating Plan

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Public Entity Shared Risk and Insurance Purchasing Pool

Brown County Schools Benefits Consortium

Note 2 – Summary of Significant Accounting Policies

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

Basis of Presentation

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

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the Educational Service Center as a whole. These statements include the financial activities of the Educational Service Center, except for fiduciary funds. The statements usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type; however the Educational Service Center has no business-type activities.

The Statement of Net Position presents the financial condition of the governmental activities of the Educational Service Center at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center, with certain limited exceptions.

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

Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

Fund Accounting

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

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is the Educational Service Center's major governmental fund.

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are not available to support the Educational Service Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds. The agency funds account for activities related to the 125 Plan and the Brown County Schools Benefits Consortium.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the financial statements of the fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows or resources, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Measurable” means that the amount of the transaction can be determined, and “available” means that the resources are collectible within the current fiscal year, or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within 31 days of fiscal year-end.

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

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

Expenses/Expenditures

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center, except cash held as fiscal agent for the Brown County Schools Benefits Consortium and cash held in relation to the 125 plan, is pooled in a central bank account. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as “Equity in Pooled Cash and Cash Equivalents,” on the financial statements. Cash received and held as fiscal agent for the Brown County Schools Benefits Consortium and cash held in relation to the 125 plan are held in separate bank accounts and are presented as “Cash and Cash Equivalents in Segregated Accounts.”

During fiscal year 2014, investments were limited to certificates of deposit, reported at cost, and the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s net asset value per share, which is the price the investment could be sold for on June 30, 2014.

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2014 amounted to \$7,385.

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2014, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the fiscal year in which services are consumed.

Inventory

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

Capital Assets

All capital assets of the Educational Service Center are general capital assets that are associated with governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Position but are not reported in the fund financial statements.

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

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

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year-end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Educational Service Center.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

Accrued Liabilities and Long-term Obligations

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

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

Fund Balance

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

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

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Educational Service Center Board. State statute authorizes the Treasurer to assign fund balance purchases on order provided such amounts have been lawfully appropriated.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

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

Net Position

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

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

Internal Activity

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

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

Budgetary Process

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Estimates

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

Flow-Through Grants

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and exempted village school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures/expenses. For fiscal year 2014, the Educational Service Center had no flow through grants.

Note 3 – Deposits and Investments

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

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

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

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

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

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio; or Ohio Local Governments;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) above;
7. The State Treasurer's investment pool (STAROhio); and
8. Commercial paper and bankers acceptances if training requirements have been met.

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

Investments

As of June 30, 2014, the Educational Service Center only had investments in STAROhio.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$3,056	Average 51.4 days

Interest Rate Risk

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Credit Risk

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

Concentration of Credit Risk

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

Note 4 – Receivables

Receivables at June 30, 2014, consisted of interest and amounts due from other school districts and governmental agencies. All receivables are considered collectible in full and will be received within one year. The Educational Service Center had the following intergovernmental receivable:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Excess Costs	\$5,224
E-Rate	<u>10,153</u>
Total Intergovernmental Receivable	<u><u>\$15,377</u></u>

Note 5 – Capital Assets

Capital assets activity for the fiscal year ended June 30, 2014, was as follows:

	<u>Ending Balance 6/30/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2014</u>
<u>Governmental Activities:</u>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$394,029	\$3,202	(\$279,699)	\$117,532
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(371,056)</u>	<u>(7,082) *</u>	<u>277,687</u>	<u>(100,451)</u>
Depreciable Capital Assets, Net	<u><u>\$22,973</u></u>	<u><u>(\$3,880)</u></u>	<u><u>(\$2,012)</u></u>	<u><u>\$17,081</u></u>

* Depreciation expense was charged to governmental functions as follows:

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Instruction:	
Special	\$649
Support Services:	
Pupils	2,188
Instructional Staff	1,699
Administration	284
Fiscal	1,019
Central	1,243
Total Depreciation Expense	<u><u>\$7,082</u></u>

Note 6 – State and Local School District Funding

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each local and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local and exempted village school districts based on each school's total student count. The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 7 – Risk Management

Liability Insurance

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, professional liability was provided by the Ohio Casualty Insurance Company with a \$4,000,000 aggregate limit.

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

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

Workers' Compensation Group Rating Plan

For fiscal year 2014, the Educational Service Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 13). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

Employee Medical and Dental Benefits

The Educational Service Center participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk and insurance purchasing pool (Note 13) consisting of nine districts. The Consortium has elected to have United Healthcare provide medical coverage purchased as a group through the Consortium. Dental coverage is being provided through a shared risk pool based on member districts' number of employees. The Educational Service Center is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and dental benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member relinquishes their portion of equity in the Consortium's cash pool.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 8 – Defined Benefit Pension Plans

School Employees Retirement System

Plan Description – The Educational Service Center participates in the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2014, the allocation to pension and death benefits was 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$139,742, \$162,727 and \$123,072, respectively. For fiscal year 2014, 89.22 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

State Teachers Retirement System of Ohio

Plan Description – The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that can be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

A DB or Combined Plan member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 11 percent for members and 14 percent for employers. The statutory maximum employee contribution rate was increased one percent July 1, 2013, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions to STRS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$243,980, \$236,550, and \$247,854. For fiscal year 2014, 89.73 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Contributions made to STRS Ohio for the DC Plan for fiscal year 2014 were \$5,833 made by the Educational Service Center and \$4,583 made by the plan members. In addition, member contributions of \$9,929 were made for fiscal year 2014 for the defined contribution portion of the Combined Plan.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2014, one member of the Board of Education elected Social Security. The contribution rate is 6.2 percent of wages.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 9 – Post-Employment Benefits

School Employees Retirement System

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2014, 0.14 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2014, this amount was \$20,250. During fiscal year 2014, the Educational Service Center paid \$16,926 in surcharge.

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$20,109, \$17,172, and \$30,520, respectively. For fiscal year 2014, 89.22 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare Part B Fund. For fiscal year 2014, this actuarially required allocation was 0.76 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2014, 2013, and 2012, were \$8,107, \$9,192, and \$7,920 respectively. For fiscal year 2014, 89.22 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

State Teachers Retirement System of Ohio

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2014, STRS Ohio allocated employer contributions equal to one percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2014, 2013, and 2012 were \$18,768, \$18,196, and \$19,066 respectively. For fiscal year 2014, 89.73 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2013 and 2012. The STRS Board voted to discontinue the current one percent allocation to the health care fund effective July 1, 2014.

Note 10 – Employee Benefits

Compensated Absences

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

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

Other Employee Benefits

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

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

125 Plan

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

Note 11 – Leases – Lessee Disclosure

The Educational Service Center leases building space under non-cancelable operating leases. Operating lease payments are reported as function expenditures in the General Fund. Total operating lease payments in fiscal year 2014 were \$52,065. The total operating lease payments due in fiscal year 2015 are \$52,065.

Note 12 – Long-Term Obligations

The changes in the Educational Service Center’s long-term obligations during fiscal year 2014 were as follows:

	Principal Outstanding 6/30/13	Additions	Deductions	Amount Outstanding 6/30/14	Amount Due in One Year
Governmental Activities:					
Compensated Absences	<u>\$178,376</u>	<u>\$54,804</u>	<u>\$39,591</u>	<u>\$193,589</u>	<u>\$38,980</u>

Compensated absences will be paid from the General Fund.

Note 13 – Jointly Governed Organization, Insurance Purchasing Pool and Public Entity Shared Risk Pool

Jointly Governed Organization

The Educational Service Center is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a regional council of governments. SCOCARCoG is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers.

Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board. The Educational Service Center paid SCOCARCoG \$10,762 for services provided during the fiscal year. Financial information can be obtained from the SCOCA Regional Council of Governments, Sandra Benson, Fiscal Officer, at P.O. Box 596, 175 Beaver Creek Rd., Piketon, Ohio, 45661

Insurance Purchasing Pool

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

Public Entity Shared Risk and Insurance Purchasing Pool

The Brown County Schools Benefits Consortium, a public entity shared risk and insurance purchasing pool, currently operates to provide medical insurance (insurance purchasing pool) and dental coverage (public entity shared risk pool) to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley Union Lewis Huntington, Southern Hills Joint Vocational, and Western Brown Schools) and two Highland County school districts (Bright Local and Lynchburg-Clay Local School District) along with the Brown County Educational Service Center have entered into an agreement to form the Brown County Schools Benefits Consortium. The Consortium is governed by a nine member board consisting of the superintendents of each participating school district along with the superintendent of the Brown County Educational Service Center. The overall objectives of the consortium are to formulate and administer a program of medical and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with United Healthcare to provide medical insurance directly to consortium member employees. The Educational Service Center pays premiums to the consortium based on employee membership. For dental coverage the consortium acts as a public entity shared risk pool. Each member district pays dental premiums based on the consortium estimates of future claims. If the member district's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the member district's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, Dental Care Plus. Participating member districts pay an administrative fee to the fiscal agent to cover the costs associated with the administering of the Consortium. To obtain financial information write to the Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

Brown County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014

Note 14 – Contingencies

Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2014, if applicable, cannot be determined at this time.

Litigation

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

Note 15 – Significant Commitments

Encumbrances

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

General Fund	<u><u>\$24,652</u></u>
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Brown County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

Note 16 - Fund Balances

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

<u>Fund Balances</u>	<u>General</u>
<i>Nonspendable</i>	
Inventory	\$93,506
Prepays	3,297
<i>Total Nonspendable</i>	<u>96,803</u>
<i>Committed to</i>	
Other Purposes	7,000
<i>Assigned to</i>	
Purchases on Order	17,652
<i>Unassigned</i>	<u>1,603,809</u>
<i>Total Fund Balances</i>	<u><u>\$1,725,264</u></u>



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

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

To the Board of Education:

We have audited in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Center), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 16, 2014.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
Piketon, Ohio
December 16, 2014