

BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY  
REGULAR AUDIT  
FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND 2019



Millhuff-Stang, CPA, Inc.  
1428 Gallia Street, Suite 2  
Portsmouth, Ohio 45662  
Phone: 740.876.8548 ■ Fax: 888.876.8549  
Website: [www.milhuffstangcpa.com](http://www.milhuffstangcpa.com) ■ Email: [natalie@millhuffstangcpa.com](mailto:natalie@millhuffstangcpa.com)



OHIO AUDITOR OF STATE  
KEITH FABER



88 East Broad Street  
Columbus, Ohio 43215  
IPAReport@ohioauditor.gov  
(800) 282-0370

Governing Board  
Brown County Educational Service Center  
9231 Hamer Road #8  
Georgetown, Ohio 45121

We have reviewed the *Independent Auditor's Report* of the Brown County Educational Service Center, prepared by Millhuff-Stang, CPA, Inc., for the audit period July 1, 2018 through June 30, 2020. 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 Brown County Educational Service Center is responsible for compliance with these laws and regulations.

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

Keith Faber  
Auditor of State  
Columbus, Ohio

April 21, 2021

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**Brown County Educational Service Center**  
**Brown County**  
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*For the Fiscal Years Ended June 30, 2020 and 2019*

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**Independent Auditor's Report**

Board of Education  
Brown County Educational Service Center  
9231 B Hamer Road  
Georgetown, Ohio 45121

**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 Brown County Educational Service Center, Brown County, Ohio (the Educational Service Center), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Educational 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.

*Auditor's Responsibility*

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

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

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

***Opinions***

In our opinion, the financial statements referred to 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 Brown County Educational Service Center, Brown County, Ohio, as of June 30, 2020 and 2019, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 19 to the financial statements for the fiscal years ended June 30, 2020 and 2019, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. We did not modify our opinion regarding this matter.

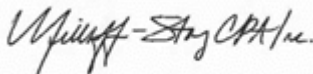
***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the Educational Service Center's proportionate share of the net pension liability, the schedule of the Educational Service Center's proportionate share of the net OPEB liability (asset), and the schedule of Educational Service Center's contributions on pages 3 through 7 and 44 through 46, respectively, for the fiscal year ended June 30, 2020, and 51 through 57 and 102 through 111, respectively, for the fiscal year ended June 30, 2019, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2021 on our consideration of the Educational 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 solely 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 the effectiveness of the Educational Service Center's 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 Educational Service Center's internal control over financial reporting and compliance.



Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

January 22, 2021



**Brown County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*(Unaudited)*

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As management of the Brown County Educational Service Center (Educational Service Center), we offer readers of the Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here to enhance their understanding of the Educational Service Center's financial performance.

**Financial Highlights**

- The Educational Service Center's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2020 by \$7,079,425. This deficit is primarily due to the recognition of net pension and other postemployment benefit (OPEB) liabilities, which is further discussed in the notes to the basic financial statements.
- The Educational Service Center's net position of governmental activities decreased \$941,475.
- General revenues accounted for \$240,553 or 4 percent of total revenues. Program specific revenues in the form of charges for services and sales and operating grants and contributions accounted for \$6,613,286 or 96 percent of total revenues of \$6,853,839.
- The Educational Service Center had \$7,795,314 in expenses related to governmental activities; \$6,613,286 of these expenses were offset by program specific revenues.

**Using This Annual Financial Report**

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 Educational Service Center as a financial whole, or an entire operating entity.

The statement of net position and statement of activities provide information about the activities of the Educational Service Center as a whole, 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 the amount of funds available for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other nonmajor funds presented in total in one column.

**Reporting the 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 2020." 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, liabilities, and deferred inflows/outflows of resources using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report net position and changes to net position. This change informs the reader whether the Educational Service Center's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account nonfinancial factors that also impact the Educational Service Center's financial well-being. Some factors may be financial while others, such as mandated educational programs, are nonfinancial factors.

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

**Brown County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*(Unaudited)*

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**Reporting the Educational Service Center's Most Significant Funds**

Fund Financial Statements

Fund financial statements 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 funds, which are the General Fund and the Early Childhood Education 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 year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily 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 to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the statement of net position and the statement 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 assets cannot be utilized by the Educational Service Center 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.

*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.

**The Educational Service Center as a Whole**

As stated previously, the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2020 compared to 2019.

Table 1  
 Net Position  
 Governmental Position

	2020	2019
Assets:		
Current and Other Assets	\$2,099,702	\$2,111,802
Capital Assets, Net	17,969	21,465
Total Assets	2,117,671	2,133,267
Deferred Outflows of Resources	2,122,361	2,780,553
Liabilities:		
Current and Other Liabilities	934,792	844,182
Long-Term Liabilities	9,280,978	9,137,404
Total Liabilities	10,215,770	9,981,586
Deferred Inflows of Resources	1,103,687	1,070,184

**Brown County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*(Unaudited)*

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Table 1  
 Net Position  
 Governmental Position  
 (Continued)

	2020	2019
Net Position:		
Investment in Capital Assets	\$17,969	\$21,465
Restricted	1,641	0
Unrestricted (Deficit)	(7,099,035)	(6,159,415)
Total Net Position	(\$7,079,425)	(\$6,137,950)

Current and other assets decreased slightly between years due primarily to a decrease in cash and cash equivalents, which was partially offset by an increase in intergovernmental receivables. Capital assets, net decreased slightly due to depreciation. Deferred outflows of resources decreased due to decreases in actuarially determined amounts related to the Educational Service Center's proportionate share of the state-wide net pension/OPEB liability. Current and other liabilities increased between years due to an increase in accrued wages and benefits and intergovernmental payable. Long-term liabilities increased due to an increase in the Educational Service Center's proportionate share of the state-wide net pension liability. Deferred inflows of resources increased due to an increase in actuarially determined amounts related to the Educational Service Center's proportionate share of the state-wide net pension/OPEB liability.

Table 2 shows the changes in net position for the fiscal years ended June 30, 2020 and 2019.

Table 2  
 Changes in Net Position  
 Governmental Activities

	2020	2019
Revenues		
Program Revenues:		
Charges for Services and Sales	\$5,906,853	\$5,396,520
Operating Grants and Contributions	706,433	665,718
Total Program Revenues	6,613,286	6,062,238
General Revenues:		
Grants and Entitlements not Restricted	150,230	179,926
Investment Earnings	34,121	40,110
Miscellaneous	56,202	8,675
Total General Revenues	240,553	228,711
Total Revenues	6,853,839	6,290,949

**Brown County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*(Unaudited)*

Table 2  
 Changes in Net Position  
 Governmental Activities  
 (Continued)

	2020	2019
Program Expenses:		
Instruction		
Regular	\$359,890	\$351,091
Special	3,633,296	3,282,264
Support Services		
Pupils	2,180,968	1,501,883
Instructional Staff	666,050	431,446
Board of Education	67,873	43,101
Administration	480,685	316,547
Fiscal	289,377	281,065
Operation and Maintenance of Plant	57,272	47,769
Pupil Transportation	8,229	7,578
Central	51,674	45,094
Total Expenses	7,795,314	6,307,838
Change in Net Position	(941,475)	(16,889)
Net Position at Beginning of Year	(6,137,950)	(6,121,061)
Net Position at End of Year	(\$7,079,425)	(\$6,137,950)

Charges for services and sales increased between years due primarily to an increase in contract services paid by member school districts. Operating grants and contributions increased between years due to an increase in preschool program funding received. Miscellaneous revenue increased between years due primarily to significant workers compensation rebates received in 2020.

Many expenses increased significantly between years due to an increase in expenses related to pension and OPEB activity. For fiscal year 2020, expenses recognized amounted to \$1,473,288 whereas expenses recognized in the prior year amounted to \$368,962. This resulted in a net increase in expenses of \$1,104,326, which was allocated amongst various expense functions. Expenses also increased related to the additional contract services provided to member districts and due to additional funding received for the preschool program.

The statement of activities shows the cost of program services and the charges for services and sales and operating grants and contributions offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by general revenues of the Educational Service Center.

Table 3  
 Total and Net Cost of Program Services  
 Governmental Activities

	2020		2019	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$3,993,186	\$491,590	\$3,633,355	\$216,083
Support Services	3,802,128	690,438	2,674,483	29,517
Total Expenses	\$7,795,314	\$1,182,028	\$6,307,838	\$245,600

**Brown County Educational Service Center**  
*Management's Discussion and Analysis*  
*For the Fiscal Year Ended June 30, 2020*  
*(Unaudited)*

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**The Educational Service Center's Funds**

Governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$6,866,251 and expenditures of \$6,994,587.

The General Fund had \$6,260,819 in revenues and \$6,316,530 in expenditures, resulting in a decrease in fund balance of \$55,711, resulting from expenditures outpacing revenues.

The Early Childhood Education Fund had \$529,299 in revenues and \$599,373 in expenditures, resulting in a decrease in fund balance of \$70,074, resulting from expenditures outpacing revenues.

**General Fund Budget Highlights**

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

**Capital Assets**

At the end of fiscal year 2020, the Educational Service Center had \$17,969 invested in its capital assets, net of accumulated depreciation. Table 4 shows the fiscal year 2020 balances compared to 2019.

Table 4  
 Capital Assets  
 (Net of Accumulated Depreciation)  
 Governmental Activities

	<u>2020</u>	<u>2019</u>
Furniture and Equipment	<u>\$17,969</u>	<u>\$21,465</u>

Changes in capital assets from the prior year resulted from current year depreciation expense. See note 5 to the basic financial statements for more detailed information related to capital assets.

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

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

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**Brown County Educational Service Center**  
*Statement of Net Position*  
*June 30, 2020*

	Governmental Activities
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,494,634
Materials and Supplies Inventory	112,597
Accounts Receivable	28,706
Intergovernmental Receivable	88,175
Prepaid Items	22,376
Depreciable Capital Assets, Net	17,969
Net OPEB Asset	353,214
<i>Total Assets</i>	2,117,671
<b>Deferred Outflows of Resources</b>	
Pensions	1,768,939
OPEB	353,422
<i>Total Deferred Outflows of Resources</i>	2,122,361
<b>Liabilities</b>	
Accounts Payable	7,531
Accrued Wages and Benefits	794,864
Intergovernmental Payable	132,397
Long-Term Liabilities:	
Due Within One Year	29,222
Due in More Than One Year	330,822
Net Pension Liability	7,655,198
Net OPEB Liability	1,265,736
<i>Total Liabilities</i>	10,215,770
<b>Deferred Inflows of Resources</b>	
Pensions	299,657
OPEB	804,030
<i>Total Deferred Inflows of Resources</i>	1,103,687
<b>Net Postion</b>	
Investment in Capital Assets	17,969
Restricted for Other Purposes	1,641
Unrestricted (Deficit)	(7,099,035)
<i>Total Net Position</i>	(\$7,079,425)

See the accompanying notes to the basic financial statements.

**Brown County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June 30, 2020

	Program Revenues			Net Revenues (Expenses) and Changes in Net Position
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	
<b>Governmental Activities</b>				
Instruction				
Regular	\$359,890	\$294,541	\$0	(\$65,349)
Special	3,633,296	2,551,645	655,410	(426,241)
Support Services				
Pupils	2,180,968	1,740,598	29,179	(411,191)
Instructional Staff	666,050	529,184	20,615	(116,251)
Board of Education	67,873	60,601	0	(7,272)
Administration	480,685	386,822	0	(93,863)
Fiscal	289,377	236,997	1,229	(51,151)
Operation and Maintenance of Plant	57,272	52,195	0	(5,077)
Pupil Transportation	8,229	7,500	0	(729)
Central	51,674	46,770	0	(4,904)
<i>Total Governmental Activities</i>	<u>\$7,795,314</u>	<u>\$5,906,853</u>	<u>\$706,433</u>	<u>(1,182,028)</u>
		<b>General Revenues</b>		
		Grants and Entitlements not Restricted		
				150,230
				to Specific Programs
				Investment Earnings
				34,121
				Miscellaneous
				56,202
				<u>Total General Revenues</u>
				240,553
				<i>Change in Net Position</i>
				(941,475)
				<i>Net Position Beginning of Year</i>
				(6,137,950)
				<u><i>Net Position End of Year</i></u>
				(\$7,079,425)

See the accompanying notes to the basic financial statements.



**Brown County Educational Service Center**  
*Balance Sheet*  
*Governmental Funds*  
*June 30, 2020*

	General Fund	Early Childhood Education Fund	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$1,494,634	\$0	\$0	\$1,494,634
Materials and Supplies Inventory	112,597	0	0	112,597
Accounts Receivable	28,706	0	0	28,706
Interfund Receivable	47,508	0	0	47,508
Intergovernmental Receivable	858	61,996	25,321	88,175
Prepaid Items	22,376	0	0	22,376
<i>Total Assets</i>	<u>\$1,706,679</u>	<u>\$61,996</u>	<u>\$25,321</u>	<u>\$1,793,996</u>
<b>Liabilities</b>				
Accounts Payable	\$2,531	\$0	\$5,000	\$7,531
Accrued Wages and Benefits Payable	702,875	85,627	6,362	794,864
Interfund Payable	0	34,975	12,533	47,508
Intergovernmental Payable	118,233	12,765	1,399	132,397
<i>Total Liabilities</i>	<u>823,639</u>	<u>133,367</u>	<u>25,294</u>	<u>982,300</u>
<b>Deferred Inflows of Resources</b>				
Unavailable Revenue	858	0	2,578	3,436
<i>Total Deferred Inflows of Resources</i>	<u>858</u>	<u>0</u>	<u>2,578</u>	<u>3,436</u>
<b>Fund Balances</b>				
Nonspendable	134,973	0	0	134,973
Assigned	33,921	0	0	33,921
Unassigned (Deficit)	713,288	(71,371)	(2,551)	639,366
<i>Total Fund Balances</i>	<u>882,182</u>	<u>(71,371)</u>	<u>(2,551)</u>	<u>808,260</u>
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$1,706,679</u>	<u>\$61,996</u>	<u>\$25,321</u>	<u>\$1,793,996</u>

See the 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, 2020*

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Total Governmental Fund Balances		\$808,260
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	72,328	
Accumulated depreciation	(54,359)	
Total		17,969

Other long-term assets are not available to pay for the current period's expenditures and therefore are deferred in the funds.

Intergovernmental	3,436	
Total		3,436

The net pension/OPEB liability is not due and payable in the current period. Therefore, the liability and related deferred inflows/outflows are not reported in governmental funds:

Deferred outflows-pension	1,768,939	
Deferred outflows-OPEB	353,422	
Deferred inflows-pension	(299,657)	
Deferred inflows-OPEB	(804,030)	
Net pension liability	(7,655,198)	
Net OPEB asset	353,214	
Net OPEB liability	(1,265,736)	
Total		(7,549,046)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Compensated absences	(360,044)	
Total		(360,044)

Net Position of Governmental Activities		<u><u>(\$7,079,425)</u></u>
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See the 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, 2020*

	General Fund	Early Childhood Education Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$263,643	\$529,299	\$76,133	\$869,075
Interest	34,121	0	0	34,121
Tuition and Fees	155,636	0	0	155,636
Customer Sales and Services	5,751,217	0	0	5,751,217
Miscellaneous	56,202	0	0	56,202
<i>Total Revenues</i>	6,260,819	529,299	76,133	6,866,251
<b>Expenditures</b>				
Current				
Instruction				
Regular	319,280	0	0	319,280
Special	2,621,852	599,373	29,302	3,250,527
Support Services				
Pupils	1,900,601	0	28,241	1,928,842
Instructional Staff	575,813	0	19,952	595,765
Board of Education	66,495	0	0	66,495
Administration	459,683	0	0	459,683
Fiscal	255,986	0	1,189	257,175
Operation and Maintenance of Plant	57,272	0	0	57,272
Pupil Transportation	8,229	0	0	8,229
Central	51,319	0	0	51,319
<i>Total Expenditures</i>	6,316,530	599,373	78,684	6,994,587
<i>Net Change in Fund Balances</i>	(55,711)	(70,074)	(2,551)	(128,336)
<i>Beginning Fund Balances (Deficits), July 1</i>	937,893	(1,297)	0	936,596
<i>Ending Fund Balances (Deficits), June 30</i>	\$882,182	(\$71,371)	(\$2,551)	\$808,260

See the 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, 2020*

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Net Change in Fund Balances - Total Governmental Funds (\$128,336)

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, the Educational Service Center had no capital asset additions. The amount of depreciation is:

Current year depreciation	<u>(3,496)</u>	
Total		(3,496)

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

Intergovernmental		(12,412)
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Contractually required contributions are reported as expenditures in governmental funds. However, the statement of net position reports these amounts as deferred outflows.

Pension	632,769	
OPEB	<u>37,366</u>	
Total		670,135

Except for amounts reported as deferred inflows/outflows, changes in the net pension/OPEB liability are reported as pension/OPEB expense in the statement of activities.

Pension	(1,450,175)	
OPEB	<u>(23,113)</u>	
Total		(1,473,288)

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

Decrease in compensated absences	<u>5,922</u>	
Total		<u>5,922</u>

Change in Net Position of Governmental Activities		<u><u>(\$941,475)</u></u>
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See the accompanying notes to the basic financial statements.

**Brown County Educational Service Center**  
*Statement of Fiduciary Assets and Liabilities*  
*June 30, 2020*

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	Agency Fund
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$10,647,242</u>
<i>Total Assets</i>	<u><u>\$10,647,242</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$10,647,242</u>
<i>Total Liabilities</i>	<u><u>\$10,647,242</u></u>

See the accompanying notes to the basic financial statements.

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**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

The Brown County Educational Service Center (the Educational Service Center) operates under a Governing Board as defined by Section 3313.01 of the Ohio Revised Code. The Brown County Governing Board was chartered to operate by the State Board of Education on June 10, 1968. The Governing Board consists of five members elected at large for staggered four-year terms. The Educational Service Center is an administrative entity providing supervision and certain other services to local school districts located in Brown County. The Educational Service Center employs 43 certified and 97 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

Hamilton Clermont Cooperative Information Technology Center

Insurance Purchasing Pool

Cincinnati USA Chamber of Commerce Group Rating Plan

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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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 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 plus deferred inflows of resources is reported as fund balance. The following are the Educational Service Center's major governmental funds.

*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.

*Preschool Fund* - The Preschool Fund accounts for and reports state grant funds for an early childhood education



**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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program.

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.

**Measurement Focus**

Government-wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets, liabilities, and deferred inflows and outflows of resources 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, current liabilities, certain deferred inflows of resources generally are included on the balance sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include 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 bases of accounting arise in the recognition of revenue, the recording of deferred inflows and outflows of 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 60 days of fiscal year-end.

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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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. 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, customer sales and services, and grants are considered to be both measurable and available at fiscal year-end.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Educational Service Center reports in the government-wide statement of net position deferred outflows of resources for amounts related to pensions and other postemployment benefits. Amounts related to pensions will be further discussed in Notes 8 and 9.

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The Educational Service Center reports deferred inflows of resources for unavailable revenue, pensions, and other postemployment benefits. Unavailable revenue is reported only on the governmental funds balance sheet and represents receivables which will not be collected within the available period. For the Educational Service Center, unavailable revenue includes intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. Amounts related to pensions and other postemployment benefits will be further discussed in Notes 8 and 9.

Expenses/Expenditures

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

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

**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 central bank accounts. Separate accounts are maintained for the Brown County Schools Benefits Consortium and the 125 plan but are included in the accounting records of the Educational Service Center. 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.

During fiscal year 2020, 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 which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures their investment in STAR Ohio at the net asset value

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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(NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2020, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the 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 2020 amounted to \$34,121.

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

**Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2020 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 acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of \$1,500. 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 twenty 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.

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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The Educational Service Center records a liability for accumulated unused sick leave for all employees after 10 years of current service with the Educational Service Center.

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditures to the extent that payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid. The Educational Service Center had no matured compensated absences to report at June 30, 2020.

**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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

**Pensions/Other Postemployment Benefits (OPEB)**

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

**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 are 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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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

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

**Net Position**

Net position represents the difference between all other elements in a statement of financial position. The investment in capital assets component of net position consists of capital assets, net of accumulated depreciation. 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. The Educational Service Center reported no interfund transfers for the fiscal year ended June 30, 2020.

**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 not required to file budgetary information with the State Department of Education.

**Estimates**

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**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 2020, 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.

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations, including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio); and

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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 Educational Service Center, 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.

**Investments**

As of June 30, 2020, the Educational Service Center only had investments in STAR Ohio.

<u>Measurement/ Investment</u>	<u>Measurement Amount</u>	<u>Average Maturity</u>
Net Asset Value Per Share:		
STAR Ohio	\$549,268	45.5 Days

Interest Rate Risk

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

Credit Risk

STAR Ohio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAR Ohio 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, 2020 consisted of 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 receivables:

<u>Governmental Activities</u>	<u>Amount</u>
State Foundation	\$858
Ohio Department of Education	87,317
Total	<u>\$88,175</u>



**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

**Note 5 – Capital Assets**

Capital assets activity for the fiscal year ended June 30, 2020 was as follows:

	Balance at 6/30/19	Additions	Deletions	Balance at 6/30/20
<i>Governmental Activities</i>				
Capital Assets Being Depreciated				
Furniture and Equipment	\$72,328	\$0	\$0	\$72,328
Less Accumulated Depreciation				
Furniture and Equipment	(50,863)	(3,496)	0	(54,359)
Governmental Activities Capital Assets, Net	<u>\$21,465</u>	<u>(\$3,496)</u>	<u>\$0</u>	<u>\$17,969</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$376
Support Services:	
Pupils	1,587
Administration	1,100
Fiscal	433
Total Depreciation Expense	<u>\$3,496</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 \$27.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount includes a proration factor equal to 0.766461550 that is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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



**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**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 2020, professional liability was provided by the Argonaut Insurance Company with a \$3,000,000 aggregate limit.

Liberty Mutual maintains a \$20,000 public official bond for the Treasurer.

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 2020, the Educational Service Center participated in the Cincinnati USA Chamber of Commerce group rating program (GRP), an insurance purchasing pool (See 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 school districts 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 school districts that can meet the GRP's selection criteria. The firm of Sheakley UniComp 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.

**Note 8 – Defined Benefit Pension Plans**

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

**Net Pension Liability/Net OPEB Liability**

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions and OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

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events require adjusting these estimates annually.

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require, the retirement systems to provide healthcare to eligible benefit recipients.

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

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

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

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

Age and service requirements for retirement are as follows:

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

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

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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, 2020, the allocation to pension, death benefits, and Medicare B was 14.0 percent. For fiscal year 2020, the Retirement Board did not allocate any employer contribution to the Health Care Fund.

The Educational Service Center's contractually required contributions to SERS were \$249,479 for fiscal year 2020.

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

Plan Description – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information, and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS website 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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of-living increases are not affected by this change. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

Eligibility changes for DB Plan members who retire with actuarially reduced benefits will be phased in until August 1, 2023, when retirement eligibility will be five years of qualifying service credit and age 60, or 30 years of service credit at any age.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. The member determines how to allocate the member and employer money among various investment choices offered by STRS. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

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The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50 and after termination of employment.

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. New members must have at least ten years of qualifying service credit to apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. Eligible survivors of members who die before service retirement may qualify for monthly benefits. 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 fiscal year 2020 employer and employee contribution rate was 14 percent was equal to the statutory maximum rates. For fiscal year 2020, the full employer contribution was allocated to pension.

The Educational Service Center's contractually required contributions to STRS were \$383,290 for fiscal year 2020.

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

The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.04834080%	0.02122682%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.04912140%</u>	<u>0.02132628%</u>	
Change in Proportionate Share	<u>0.00078060%</u>	<u>0.00009946%</u>	
Proportionate Share of the Net			
Pension Liability	\$2,939,019	\$4,716,179	\$7,655,198
Pension Expense	\$657,244	\$792,931	\$1,450,175

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$74,529	\$38,397	\$112,926
Changes of assumptions	0	554,006	554,006
Changes in proportion and differences between Educational Service Center contributions and proportionate share of contributions	104,191	365,047	469,238
Educational Service Center contributions subsequent to the measurement date	<u>249,479</u>	<u>383,290</u>	<u>632,769</u>
Total Deferred Outflows of Resources	<u>\$428,199</u>	<u>\$1,340,740</u>	<u>\$1,768,939</u>
<i>Deferred Inflows of Resources</i>			
Differences between expected and actual experience	\$0	\$20,415	\$20,415
Net difference between projected and actual earnings on pension plan investments	37,725	230,501	268,226
Changes in proportion and differences between Educational Service Center contributions and proportionate share of contributions	<u>0</u>	<u>11,016</u>	<u>11,016</u>
Total Deferred Inflows of Resources	<u>\$37,725</u>	<u>\$261,932</u>	<u>\$299,657</u>

\$632,769 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2021	\$178,116	\$441,395	\$619,511
2022	(56,010)	160,518	104,508
2023	(2,509)	64,615	62,106
2024	<u>21,398</u>	<u>28,990</u>	<u>50,388</u>
Total	<u>\$140,995</u>	<u>\$695,518</u>	<u>\$836,513</u>

**Actuarial Assumptions - SERS**

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

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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, 2019, are presented below:

Wage Inflation	3 percent
Future Salary Increases, including inflation	3.5 percent to 18.2 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.5 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The most recent experience study was completed for the five year period ended June 30, 2015.

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

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

*Discount Rate* The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Educational Service Center's proportionate share of the net pension liability	\$4,118,617	\$2,939,019	\$1,949,779

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2019, actuarial valuation, are presented below:

Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

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

Actuarial assumptions used in the July 1, 2019 valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

STRS’ investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

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

\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

*Discount Rate* The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with 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. 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, 2019. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2019.

*Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's proportionate share of the net pension liability	\$6,892,170	\$4,716,179	\$2,874,091

**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, 2020, 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*

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**Note 9 – Postemployment Benefits**

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

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

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

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2020, no allocation was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2020, this amount was \$19,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2020, the Educational Service Center's surcharge obligation was \$37,366.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$37,366 for fiscal year 2020.

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

Plan Description – The State Teachers Retirement System of Ohio (STRS) administers a cost-sharing Health Plan administered for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Medicare Part B premium reimbursements will be discontinued effective January 1, 2021. 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 to offer the Plan and gives the Retirement Board

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

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discretionary authority over how much, if any, of the health care costs will be absorbed by STRS. Active employee members do not contribute to the Health Care Plan. All benefit recipients pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2020, STRS did not allocate any employer contributions to post-employment health care.

**Net OPEB Liability (Asset), OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

The net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net OPEB liability (asset) was based on the Educational Service Center's share of contributions to the respective retirement systems relative to the contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability (Asset) Prior Measurement Date	0.04907550%	0.02122682%	
Proportion of the Net OPEB Liability (Asset) Current Measurement Date	<u>0.05033170%</u>	<u>0.02132628%</u>	
Change in Proportionate Share	<u>0.00125620%</u>	<u>0.00009946%</u>	
Proportionate Share of the Net OPEB Liability	\$1,265,736	\$0	\$1,265,736
Proportionate Share of the Net OPEB Asset	\$0	(\$353,214)	(\$353,214)
OPEB Expense	\$115,364	(\$92,251)	\$23,113

At June 30, 2020, the Educational Service Center reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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*For the Fiscal Year Ended June 30, 2020*

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<i>Deferred Outflows of Resources</i>			
Differences between expected and actual experience	\$18,580	\$32,022	\$50,602
Changes of assumptions	92,448	7,425	99,873
Net difference between projected and actual earnings on OPEB plan investments	3,038	0	3,038
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	81,520	81,023	162,543
Educational Service Center contributions subsequent to the measurement date	<u>37,366</u>	<u>0</u>	<u>37,366</u>
Total Deferred Outflows of Resources	<u>\$232,952</u>	<u>\$120,470</u>	<u>\$353,422</u>
<i>Deferred Inflows of Resources</i>			
Differences between expected and actual experience	\$278,074	\$17,970	\$296,044
Changes of assumptions	70,928	387,258	458,186
Net difference between projected and actual earnings on OPEB plan investments	0	22,185	22,185
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	<u>27,615</u>	<u>0</u>	<u>27,615</u>
Total Deferred Inflows of Resources	<u>\$376,617</u>	<u>\$427,413</u>	<u>\$804,030</u>

\$37,366 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
2021	(\$38,059)	(\$68,427)	(\$106,486)
2022	(31,969)	(68,428)	(100,397)
2023	(16,738)	(59,536)	(76,274)
2024	(37,006)	(56,415)	(93,421)
2025	(38,579)	(55,250)	(93,829)
Thereafter	<u>(18,680)</u>	<u>1,113</u>	<u>(17,567)</u>
Total	<u>(\$181,031)</u>	<u>(\$306,943)</u>	<u>(\$487,974)</u>

**Actuarial Assumptions - SERS**

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

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

Key methods and assumptions used in calculating the total OPEB liability in the latest actuarial valuation date of June 30, 2019, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Municipal Bond Index Rate:	
Measurement Date	3.13 percent
Prior Measurement Date	3.62 percent
Single Equivalent Interest Rate, net of plan investment expense, including price inflation	
Measurement Date	3.22 percent
Prior Measurement Date	3.70 percent
Medical Trend Assumption	
Medicare	5.25 to 4.75 percent
Pre-Medicare	7.00 to 4.75 percent

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five-year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015 and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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

*Discount Rate* The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.22 percent. The discount rate used to measure total OPEB liability prior to June 30, 2019 was 3.70 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024 and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.13 percent, as of June 30, 2019 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

*Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates* The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.22%) and higher (4.22%) than the current discount rate (3.22%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.00% decreasing to 3.75%) and higher (8.00% decreasing to 5.75%) than the current rate.

	<u>1% Decrease (2.22%)</u>	<u>Current Discount Rate (3.22%)</u>	<u>1% Increase (4.22%)</u>
Educational Service Center's proportionate share of the net OPEB liability	\$1,536,364	\$1,265,736	\$1,050,556
	<u>1% Decrease (6.00% decreasing to 3.75%)</u>	<u>Current Trend Rate (7.00% decreasing to 4.75%)</u>	<u>1% Increase (8.00% decreasing to 5.75%)</u>
Educational Service Center's proportionate share of the net OPEB liability	\$1,014,111	\$1,265,736	\$1,599,582

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

June 30, 2019, actuarial valuation are presented below:

Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return	7.45 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	5.87 percent initial, 4 percent ultimate
Medicare	4.93 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	7.73 percent initial, 4 percent ultimate
Medicare	9.62 initial, 4 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2019, valuation are based on the results of an actuarial experience study for the period July 1, 2011 through June 30, 2016.

Since the prior measurement date, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944 percent to 1.984 percent per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1 percent for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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\*Target weights will be phased in over a 24-month period concluding on July 1, 2019.

\*\*10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actual rate of return, without net value added by management.

*Discount Rate* The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2019. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2019. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2019.

*Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate* The following table represents the net OPEB asset as of June 30, 2019, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease</u> <u>(6.45%)</u>	<u>Current</u> <u>Discount Rate</u> <u>(7.45%)</u>	<u>1% Increase</u> <u>(8.45%)</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$301,398)	(\$353,214)	(\$396,780)

	<u>1% Decrease</u>	<u>Current</u> <u>Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$400,529)	(\$353,214)	(\$295,266)

**Note 10 – Employee Benefits**

**Compensated Absences**

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

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

**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 Guardian Life Insurance Company through March 2020 and through Metlife

**Brown County Educational Service Center**

*Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2020*

beginning in April 2020.

**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 a non-cancelable operating lease. This operating lease is for a five year period beginning July 1, 2019 and ending on June 30, 2024. The lease will automatically renew for an additional five year period unless either party provides written notice to the other of its intent to decline the automatic renewal option not less than twelve months prior to expiration. Operating lease payments are reported as functional expenditures in the General Fund. Total operating lease payments in fiscal year 2020 were \$57,272. Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$61,853
2022	64,946
2023	67,544
2024	69,570
Total	<u>\$263,913</u>

**Note 12 – Long-Term Obligations**

The changes in the Educational Service Center's long-term obligations during fiscal year 2020 were as follows:

	<u>Balance at 6/30/19</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at 6/30/20</u>	<u>Due Within One Year</u>
<i>Governmental Activities</i>					
Net Pension Liability					
SERS	\$2,768,566	\$170,453	\$0	\$2,939,019	\$0
STRS	4,667,302	48,877	0	4,716,179	0
Total Net Pension Liability	7,435,868	219,330	0	7,655,198	0
Net OPEB Liability					
SERS	1,361,487	0	(95,751)	1,265,736	0
Total Net OPEB Liability	1,361,487	0	(95,751)	1,265,736	0
Compensated Absences	365,966	185,304	(191,226)	360,044	29,222
Total	<u>\$9,163,321</u>	<u>\$404,634</u>	<u>(\$286,977)</u>	<u>\$9,280,978</u>	<u>\$29,222</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the General Fund. There is no repayment schedule for the net pension/OPEB liability. However, employer pension contributions are made from the same funds from which employees are paid. For additional information related to the net pension/OPEB liability, see Notes 8 and 9.



**Brown County Educational Service Center**

*Notes to the Basic Financial Statements*

*For the Fiscal Year Ended June 30, 2020*

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**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 Hamilton Clermont Cooperative Information Technology Center (HCC) which is a computer consortium. HCC is an association of 31 public school districts within the boundaries of Hamilton, Clermont and surrounding counties. HCC 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 HCC consists of the superintendents and/or treasurers of the participating districts. HCC is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. During fiscal year 2020, the Educational Service Center paid HCC \$5,058 for various services. Financial information can be obtained from the Director at 1007 Cottonwood Drive, Loveland, Ohio 45140.

**Insurance Purchasing Pool**

The Educational Service Center participates in the Cincinnati USA Chamber of Commerce Group Rating Program, an insurance purchasing pool. Each year, the Educational Service Center pays an enrollment fee to Sheakley 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 Career and Technical Center, 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 931 Hamer Road, Georgetown, Ohio 45121.

**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, 2020, if applicable, cannot be determined at this time.

**Brown County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2020*

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**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:

<i>Major Fund:</i>	
General	\$36,156
 <i>Nonmajor Fund:</i>	
Miscellaneous State Grants	6,382
Total	<u>\$42,538</u>

**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 major governmental funds and nonmajor governmental funds are presented below:

	General Fund	Early Childhood Education Fund	Nonmajor Governmental Funds	Total Governmental Funds
<i>Nonspendable</i>				
Inventory	\$112,597	\$0	\$0	\$112,597
Prepaid Items	22,376	0	0	22,376
<i>Total Nonspendable</i>	134,973	0	0	134,973
 <i>Assigned to</i>				
Purchases on Order	33,921	0	0	33,921
 <i>Unassigned</i>	713,288	(71,371)	(2,551)	639,366
<b>Total Fund Balances</b>	<u>\$882,182</u>	<u>(\$71,371)</u>	<u>(\$2,551)</u>	<u>\$808,260</u>

**Note 17 – Accountability**

At June 30, 2020, the Early Childhood Education, Miscellaneous State Grants, and IDEA Early Childhood Grant Special Revenue Funds had deficit balances of \$71,371, \$937, and \$1,614, respectively. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**Brown County Educational Service Center**  
*Notes to the Basic Financial Statements*  
*For the Fiscal Year Ended June 30, 2020*

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**Note 18 – Interfund Activity**

Interfund balances at June 30, 2020 consist of the following individual interfund receivables and payables:

	Interfund Receivable	Interfund Payable
<i>Major Funds:</i>		
General	\$47,508	\$0
Preschool	0	34,975
 <i>Nonmajor Funds:</i>		
Miscellaneous State Grants	0	11,855
IDEA Early Childhood Grant	0	678
Total	\$47,508	\$47,508

The balance due to the General Fund are a result of negative cash balances in other funds, which is due to timing differences in the receiving of grant monies. The General Fund is responsible for any deficit in these funds and interfund transactions were established to cover these expenditures. The purpose for the interfund balances is to eliminate the negative cash balances in these funds until grant monies are received.

**Note 19 – COVID-19**

The United States and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center. The Educational Service Center’s investment portfolio and the investments of the pension and other employee benefit plan in which the Educational Service Center participates fluctuate with market conditions, and due to market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Educational Service Center’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

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**Brown County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability*  
*Last Seven Fiscal Years*

	2014	2015	2016	2017	2018	2019	2020
<i>State Teachers Retirement System</i>							
Educational Service Center's proportion of the net pension liability	0.01821580%	0.01821580%	0.01769088%	0.01852055%	0.01862016%	0.02122682%	0.02132628%
Educational Service Center's proportionate share of the net pension liability	\$5,277,836	\$4,430,712	\$4,889,241	\$6,199,387	\$4,423,260	\$4,667,302	\$4,716,179
Educational Service Center's covered-employee payroll	\$1,819,615	\$1,855,246	\$1,854,743	\$1,937,571	\$2,118,821	\$2,455,814	\$2,494,543
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	290.1%	238.8%	263.6%	320.0%	208.8%	190.1%	189.1%
Plan fiduciary net position as a percentage of the total pension liability	69.3%	74.7%	72.1%	66.8%	75.3%	77.3%	77.4%
<i>School Employees Retirement System</i>							
Educational Service Center's proportion of the net pension liability	0.03659200%	0.03659200%	0.03572920%	0.04212930%	0.04696730%	0.04834080%	0.04912140%
Educational Service Center's proportionate share of the net pension liability	\$2,176,009	\$1,851,900	\$2,038,742	\$3,083,477	\$2,806,192	\$2,768,566	\$2,939,019
Educational Service Center's covered-employee payroll	\$1,242,189	\$1,066,732	\$1,094,370	\$1,337,321	\$1,493,564	\$1,684,533	\$1,717,985
Educational Service Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	175.2%	173.6%	186.3%	230.6%	187.9%	164.4%	171.1%
Plan fiduciary net position as a percentage of the total pension liability	65.5%	71.7%	69.2%	63.0%	69.5%	71.4%	70.9%

The amounts presented are as of the Educational Service Center's measurement date, which is the prior fiscal year end.  
Information not available prior to 2014.  
See the accompanying notes to the required supplementary information.

**Brown County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)*  
*Last Four Fiscal Years*

	2017	2018	2019	2020
<i>State Teachers Retirement System</i>				
Educational Service Center's proportion of the net OPEB liability (asset)	0.01852055%	0.01862016%	0.02122682%	0.02132628%
Educational Service Center's proportionate share of the net OPEB liability (asset)	\$990,484	\$726,490	(\$341,093)	(\$353,214)
Educational Service Center's covered-employee payroll	\$1,937,571	\$2,118,821	\$2,455,814	\$2,494,543
Educational Service Center's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	51.1%	34.3%	-13.9%	-14.2%
Plan fiduciary net position as a percentage of the total OPEB liability (asset)	37.3%	47.1%	176.0%	174.7%
 <i>School Employees Retirement System</i>				
Educational Service Center's proportion of the net OPEB liability	0.04230980%	0.04756990%	0.04907550%	0.05033170%
Educational Service Center's proportionate share of the net OPEB liability	\$1,205,986	\$1,276,651	\$1,361,487	\$1,265,736
Educational Service Center's covered-employee payroll	\$1,337,321	\$1,493,564	\$1,684,533	\$1,717,985
Educational Service Center's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	90.2%	85.5%	80.8%	73.7%
Plan fiduciary net position as a percentage of the total OPEB liability	11.5%	12.5%	13.6%	15.6%

The amounts presented are as of the Educational Service Center's measurement date, which is the prior fiscal year end.

Information not available prior to 2017.

See the accompanying notes to the required supplementary information.

**Brown County Educational Service Center**  
*Required Supplementary Information*  
*Schedule of Educational Service Center Contributions*  
*Last Ten Fiscal Years*

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
<i>State Teachers Retirement System</i>										
Contractually required contribution - pension	\$247,579	\$247,854	\$236,550	\$241,182	\$259,664	\$271,260	\$296,635	\$343,814	\$349,236	\$383,290
Contractually required contribution - OPEB	19,045	19,066	18,196	18,590	0	0	0	0	0	0
Contractually required contribution - total	266,624	266,920	254,746	259,772	259,664	271,260	296,635	343,814	349,236	383,290
Contributions in relation to the contractually required contribution	266,624	266,920	254,746	259,772	259,664	271,260	296,635	343,814	349,236	383,290
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Educational Service Center's covered-employee payroll	\$1,904,454	\$1,906,569	\$1,819,615	\$1,855,246	\$1,854,743	\$1,937,571	\$2,118,821	\$2,455,814	\$2,494,543	\$2,737,786
Contributions as a percentage of covered-employee payroll - pension	13.00%	13.00%	13.00%	13.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
Contributions as a percentage of covered-employee payroll - OPEB	1.00%	1.00%	1.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Contributions as a percentage of covered-employee payroll - total	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<i>School Employees Retirement System</i>										
Contractually required contribution - pension	\$144,422	\$130,340	\$171,919	\$147,849	\$144,238	\$187,225	\$209,099	\$227,412	\$231,928	\$249,479
Contractually required contribution - OPEB (1)	15,978	5,802	4,220	1,474	8,974	0	0	8,423	8,590	0
Contractually required contribution - total	160,400	136,142	176,139	149,323	153,212	187,225	209,099	235,835	240,518	249,479
Contributions in relation to the contractually required contribution	160,400	136,142	176,139	149,323	153,212	187,225	209,099	235,835	240,518	249,479
Contribution deficiency (excess)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Educational Service Center's covered-employee payroll	\$1,148,942	\$969,071	\$1,242,189	\$1,066,732	\$1,094,370	\$1,337,321	\$1,493,564	\$1,684,533	\$1,717,985	\$1,781,993
Contributions as a percentage of covered-employee payroll - pension	12.57%	13.45%	13.84%	13.86%	13.18%	14.00%	14.00%	13.50%	13.50%	14.00%
Contributions as a percentage of covered-employee payroll - OPEB	1.43%	0.55%	0.16%	0.14%	0.82%	0.00%	0.00%	0.50%	0.50%	0.00%
Contributions as a percentage of covered-employee payroll - total	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%

(1) Excludes surcharge.

See the accompanying notes to the required supplementary information.

## **State Teachers Retirement System**

### **Pension**

#### **Changes in benefit terms**

There were no changes to benefit terms for fiscal years 2015 through 2017. For fiscal year 2018, the cost of living adjustment (COLA) was reduced to 0 percent effective July 1, 2017. There were no changes to benefit terms for fiscal years 2019 or 2020.

#### **Changes in assumptions**

There were no changes in assumptions for fiscal years 2015 through 2017.

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- Inflation assumptions were lowered from 2.75 percent to 2.50 percent.
- Investment return assumptions were lowered from 7.75 percent to 7.45 percent.
- Total salary increases rates were lowered by decreasing merit component of the individual salary increases, as well as by 0.25 percent due to lower inflation.
- Payroll growth assumptions were lowered to 3.00 percent.
- Updated the health and disability mortality assumption to the RP-2014 mortality tables with generational improvement scale MP-2016.
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

There were no changes in assumptions for fiscal years 2019 or 2020.

### **OPEB**

#### **Changes in benefit terms**

There were no changes to benefit terms for fiscal year 2017.

For fiscal year 2018, STRS has the following changes in benefit terms since the previous measurement date:

- The HealthSpan HMO plans were eliminated.
- The subsidy multiplier for non-Medicare benefit recipients was reduced to 1.9 percent per year of service from 2.1 percent.
- Medicare Part B premium reimbursements were discontinued for survivors and beneficiaries who were age 65 by 2008 and either receiving a benefit or named as a beneficiary as of January 1, 2008.
- The remaining Medicare Part B premium reimbursements will be phased out over a three-year period.

For fiscal year 2019, the following was the most significant change in benefit terms that affected the total OPEB liability since the prior measurement date:

- The subsidy multiplier for non-Medicare benefit recipients increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020, though the STRS Board voted in June 2019 to extend the current Medicare Part B partial reimbursement for one year.



**Brown County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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For fiscal year 2020, there was no change to the claims costs process. Claim curves were trended to the fiscal year ending June 30, 2020 to reflect the current price renewals. The non-Medicare subsidy percentage was increased effective January 1, 2020 from 1.944% to 1.984% per year of service. The non-Medicare frozen subsidy base premium was increased effective January 1, 2020. The Medicare subsidy percentages were adjusted effective January 1, 2021 to 2.1% for the Medicare plan. The Medicare Part B monthly reimbursement elimination date was postponed to January 1, 2021.

Changes in assumptions

There were no changes in assumptions for fiscal year 2017.

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB 74.
- The long-term rate of return was reduced to 7.45 percent.
- Valuation-year per capita health costs were updated.
- The percentage of future retirees electing each option was updated based on current data.
- The assumed future trend rates were modified.
- Decrement rates including mortality, disability, retirement, and withdrawal were modified.
- The assumed percentage of future disabled retirees assumed to elect health coverage was decreased from 84 percent to 65 percent, and the assumed percentage of terminated vested participants assumed to elect health coverage at retirement was decreased from 47 percent to 30 percent.
- The assumed salary scale was modified.

For fiscal year 2019, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate increased from a 4.13 percent blended discount rate to 7.45 percent.
- The health care trend assumption rate changed from 6 to 11 percent initial, 4.5 percent ultimate to:
  - Medical Medicare – 6 percent initial, 4 percent ultimate
  - Medical Pre-Medicare – 5 percent initial, 4 percent ultimate
  - Prescription Drug Medicare – 8 percent initial, 4 percent ultimate
  - Prescription Drug Pre-Medicare – -5.23 percent initial, 4 percent ultimate

For fiscal year 2020, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The health care trend assumption rate changed as follows:
  - Medical Medicare – from 6 percent to 5.87 percent initial, 4 percent ultimate
  - Medical Pre-Medicare – from 5 percent to 4.93 percent initial, 4 percent ultimate
  - Prescription Drug Medicare – from 8 percent to 7.73 percent initial, 4 percent ultimate
  - Prescription Drug Pre-Medicare – from -5.23 percent to 9.62 initial, 4 percent ultimate

**School Employees Retirement System**

**Pension**

Changes in benefit terms

There were no changes to benefit terms for fiscal years 2015 through 2017.

**Brown County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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For fiscal year 2018, the following were the most significant changes in benefit that affected the total pension liability since the prior measurement date:

- The cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5 percent with a floor of 0 percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendars 2018, 2019, and 2020.

There were no changes to benefit terms for fiscal years 2019 or 2020.

Changes in assumptions

There were no changes in assumptions for fiscal years 2015 through 2017.

For fiscal year 2018, the following changes were made to the actuarial assumptions as identified. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

- Assumed rate of inflation was reduced from 3.25% to 3.00%
- Payroll Growth Assumption was reduced from 4.00% to 3.50%
- Assumed real wage growth was reduced from 0.75% to 0.50%
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. The above rates represent the base rates used.
- Mortality among service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates.
- Mortality among disable member was updated to the following:
  - RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

There were no changes in assumptions for fiscal years 2019 or 2020.

**OPEB**

Changes in benefit terms

There were no changes to benefit terms for fiscal years 2017 through 2020.

Changes in assumptions

For fiscal year 2017, the following was the most significant change of assumptions that affected the total OPEB liability since the prior measurement date:

- Assumed rate of inflation was reduced from 3.25% to 3.00%
- Payroll Growth Assumption was reduced from 4.00% to 3.50%
- Assumed real wage growth was reduced from 0.75% to 0.50%
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality among active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females.
- Mortality among service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates.

**Brown County Educational Service Center**  
*Notes to the Required Supplementary Information*  
*For the Fiscal Year Ended June 30, 2020*

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- Mortality among disabled members was updated to the following:
  - RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, set back five years is used for the period after disability retirement.

For fiscal year 2018, the following was the most significant change of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 2.98 percent to 3.63.

For fiscal year 2019, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was changed from 3.63 percent to 3.70 percent.
- The municipal bond index rate increased from 3.56 percent to 3.62 percent.
- The single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63 percent to 3.70 percent.
- The medical trend assumption rate changed as follows:
  - Medicare – 2018 – 5.50 to 5.00 percent, 2019 – 5.375 to 4.75 percent
  - Pre-Medicare – 2018 – 7.50 to 5.00 percent, 2019 – 7.25 to 4.75

For fiscal year 2020, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The municipal bond index rate decreased from 3.62 percent to 3.13 percent.
- The single equivalent interest rate, net of plan investment expense, including price inflation decreased from 3.70 percent to 3.22 percent.
- The medical trend assumption rate changed as follows:
  - Medicare – 2019 – 5.375 to 4.75 percent, 2020 – 5.25 to 4.75 percent
  - Pre-Medicare – 2019 – 7.25 to 4.75, 2020 – not presented

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***Brown County Educational Service Center***  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

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As management of the Brown County Educational Service Center, we offer readers of the Brown County Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented here to enhance their understanding of the Educational Service Center's financial performance.

### **Financial Highlights**

The Educational Service Center had an increase in special instruction and charges for services related to increased services for special needs students.

Total liabilities decreased, mainly due to the decrease in net OPEB liability.

### **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 2019?" The Statement of Net Position and the Statement of Activities, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

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

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

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

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

**Fund Financial Statements**

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

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

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

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net position for fiscal years 2019 and 2018:

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

(Table 1)  
Changes in Net Position  
Governmental Activities

	2019	2018	Change
<b>Assets:</b>			
Current and Other Assets	\$1,770,709	\$1,858,057	(\$87,348)
Capital Assets, Net	21,465	18,775	2,690
Net OPEB Asset	341,093	0	341,093
Total Assets	<u>2,133,267</u>	<u>1,876,832</u>	<u>256,435</u>
<b>Deferred Outflows of Resources</b>			
Pension	2,489,573	2,530,766	(41,193)
OPEB	290,980	187,666	103,314
Total Deferred Outflows of Resources	<u>2,780,553</u>	<u>2,718,432</u>	<u>62,121</u>
<b>Liabilities:</b>			
Other Liabilities	844,182	624,253	219,929
Long-Term Liabilities:			
Net Pension Liability	7,435,868	7,229,452	206,416
Net OPEB Liability	1,361,487	2,033,141	(671,654)
Other Amounts	340,049	346,272	(6,223)
Total Liabilities	<u>9,981,586</u>	<u>10,233,118</u>	<u>(251,532)</u>
<b>Deferred Inflow of Resources</b>			
Pension	422,215	269,115	153,100
OPEB	647,969	214,092	433,877
Total Deferred Inflows of Resources	<u>1,070,184</u>	<u>483,207</u>	<u>586,977</u>
<b>Net Position:</b>			
Investment in Capital Assets	21,465	18,775	2,690
Restricted	0	42,224	(42,224)
Unrestricted	(6,159,415)	(6,182,060)	22,645
Total Net Position	<u><u>(\$6,137,950)</u></u>	<u><u>(\$6,121,061)</u></u>	<u><u>(\$16,889)</u></u>

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

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The net pension liability (NPL) is the largest single liability reported by the Educational Service Center at June 30, 2019. GASB notes that pension and OPEB 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 and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Educational Service Center is not responsible for certain key factors affecting the balance of these liabilities. 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 Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

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 or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, 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 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 and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

Total assets increased \$256,435 due to the increase in Net OPEB Asset. Total Liabilities decreased \$251,532 mostly due to the decrease in the net OPEB liability.

Net Investment in Capital Assets for governmental activities increased \$2,690. The increase is primarily due to current year additions exceeding depreciation. Unrestricted Net Position for governmental activities increased \$22,645 resulting from the decrease in net pension/OPEB liabilities.

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for 2019 and 2018.



**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

(Table 2)  
Changes in Net Position

	Governmental Activities		Change
	2019	2018	
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for Services	\$5,396,520	\$5,183,330	\$213,190
Operating Grants and Contributions	665,718	798,390	(132,672)
Total Program Revenues	<u>6,062,238</u>	<u>5,981,720</u>	<u>80,518</u>
<b>General Revenues:</b>			
Grants and Entitlements not			
Restricted to Specific Programs	179,926	158,857	21,069
Investment Earnings	40,110	24,183	15,927
Miscellaneous	8,675	9,411	(736)
Total General Revenues	<u>228,711</u>	<u>192,451</u>	<u>36,260</u>
Total Revenues	<u>6,290,949</u>	<u>6,174,171</u>	<u>116,778</u>
<b>Program Expenses</b>			
Instruction:			
Regular	351,091	453,421	(102,330)
Special	3,282,264	2,176,316	1,105,948
Support Services:			
Pupils	1,501,883	923,260	578,623
Instructional Staff	431,446	75,759	355,687
Board of Education	43,101	46,469	(3,368)
Administration	316,547	87,561	228,986
Fiscal	281,065	218,484	62,581
Operation and Maintenance of Plant	47,769	66,197	(18,428)
Pupil Transportation	7,578	21,435	(13,857)
Central	45,094	28,347	16,747
Total Expenses	<u>6,307,838</u>	<u>4,097,249</u>	<u>2,210,589</u>
Change in Net Position	(16,889)	2,076,922	(\$2,093,811)
Net Position (Deficit) at Beginning of Year	(6,121,061)	(8,197,983)	2,076,922
Net Position (Deficit) at End of Year	<u>(\$6,137,950)</u>	<u>(\$6,121,061)</u>	<u>(\$16,889)</u>

The increase in charges for services was due to an increase in services provided to member districts in relation to special needs students. Special instruction increased due to an increase in services for special needs students.

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.

**Brown County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2019**  
**Unaudited**

(Table 3)  
 Governmental Activities

	Total Cost of Services 2019	Total Cost of Services 2018	Net Cost of Services 2019	Net Cost of Services 2018
Instruction	\$3,633,355	\$2,629,737	(\$216,083)	\$749,739
Support Services	2,674,483	1,467,512	(29,517)	1,134,732
Total Expenses	\$6,307,838	\$4,097,249	(\$245,600)	\$1,884,471

**The Educational Service Center's Funds**

Information about the Educational Service Center's major fund starts on page 60. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$6,275,101 and expenditures of \$6,542,309.

The fund balance in the General Fund decreased \$268,363. This was due to expenses outpacing revenues.

**General Fund - Budget Highlights**

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

**Capital Assets**

At the end of fiscal year 2019 the Educational Service Center had \$21,465 invested in capital assets.

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

	Governmental Activities	
	2019	2018
Furniture and Equipment	\$21,465	\$18,775

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

***Brown County Educational Service Center***  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2019  
Unaudited

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

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

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*Brown County Educational Service Center*

Statement of Net Position

June 30, 2019

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,622,744
Materials and Supplies Inventory	102,892
Intergovernmental Receivable	30,454
Prepaid Items	14,619
Depreciable Capital Assets, Net	21,465
Net OPEB Asset	<u>341,093</u>
Total Assets	<u>2,133,267</u>
<b>Deferred Outflows of Resources</b>	
Pension	2,489,573
OPEB	<u>290,980</u>
Total Deferred Outflows of Resources	<u>2,780,553</u>
<b>Liabilities</b>	
Accounts Payable	11,448
Accrued Wages and Benefits Payable	694,036
Intergovernmental Payable	106,145
Matured Compensated Absences Payable	6,636
Long-Term Liabilities:	
Due Within One Year	25,917
Due in More Than One Year	
Net Pension Liability (See Note 9)	7,435,868
Net OPEB Liability (See Note 10)	1,361,487
Other Amounts	<u>340,049</u>
Total Liabilities	<u>9,981,586</u>
<b>Deferred Inflows of Resources</b>	
Pension	422,215
OPEB	<u>647,969</u>
Total Deferred Inflows of Resources	<u>1,070,184</u>
<b>Net Position</b>	
Investment in Capital Assets	21,465
Unrestricted (Deficit)	<u>(6,159,415)</u>
Total Net Position (Deficit)	<u><u>(\$6,137,950)</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, 2019

	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$351,091	\$307,585	\$0	(\$43,506)
Special	3,282,264	2,443,969	665,718	(172,577)
Support Services:				
Pupils	1,501,883	1,536,116	0	34,233
Instructional Staff	431,446	473,009	0	41,563
Board of Education	43,101	0	0	(43,101)
Administration	316,547	329,622	0	13,075
Fiscal	281,065	221,427	0	(59,638)
Operation and Maintenance of Plant	47,769	45,602	0	(2,167)
Pupil Transportation	7,578	0	0	(7,578)
Central	45,094	39,190	0	(5,904)
Total Governmental Activities	<u>\$6,307,838</u>	<u>\$5,396,520</u>	<u>\$665,718</u>	<u>(245,600)</u>
<b>General Revenues</b>				
Grants and Entitlements not				
Restricted to Specific Programs				
				179,926
				40,110
				8,675
				<u>228,711</u>
				Change in Net Position
				(16,889)
				Net Position (Deficit) at Beginning of Year
				<u>(6,121,061)</u>
				Net Position (Deficit) at End of Year
				<u><u>(\$6,137,950)</u></u>

See Accompanying Notes to the Basic Financial Statements

*Brown County Educational Service Center*

Balance Sheet  
Governmental Funds  
June 30, 2019

	General	All Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,621,626	\$1,118	\$1,622,744
Materials and Supplies Inventory	102,892	0	102,892
Interfund Receivable	1,149	0	1,149
Intergovernmental Receivable	30,454	0	30,454
Prepaid Items	14,619	0	14,619
Total Assets	<u>\$1,770,740</u>	<u>\$1,118</u>	<u>\$1,771,858</u>
<b>Liabilities</b>			
Accounts Payable	\$10,182	\$1,266	\$11,448
Accrued Wages and Benefits Payable	694,036	0	694,036
Interfund Payable	0	1,149	1,149
Intergovernmental Payable	106,145	0	106,145
Matured Compensated Absences Payable	6,636	0	6,636
Total Liabilities	<u>816,999</u>	<u>2,415</u>	<u>819,414</u>
<b>Deferred Inflows of Resources</b>			
Unavailable Revenue	<u>15,848</u>	<u>0</u>	<u>15,848</u>
<b>Fund Balance</b>			
Nonspendable	117,511	0	117,511
Assigned	32,501	0	32,501
Unassigned (Deficit)	<u>787,881</u>	<u>(1,297)</u>	<u>786,584</u>
Total Fund Balance	<u>937,893</u>	<u>(1,297)</u>	<u>936,596</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$1,770,740</u>	<u>\$1,118</u>	<u>\$1,771,858</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, 2019

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<b>Total Governmental Fund Balances</b>	<b>\$936,596</b>
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*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	72,328	
Accumulated depreciation	<u>(50,863)</u>	
Total capital assets		21,465

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.

Intergovernmental	15,848
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The net pension liability and net OPEB liabilities (asset) are not due and payable in the current period; therefore the liabilities (asset) and related deferred inflows/outflows are not reported in the governmental funds:

Net OPEB Asset	341,093	
Deferred Outflows-Pension	2,489,573	
Deferred Outflows-OPEB	290,980	
Net Pension Liability	(7,435,868)	
Net OPEB Liability	(1,361,487)	
Deferred Inflows-Pension	(422,215)	
Deferred Inflows-OPEB	<u>(647,969)</u>	
Total		(6,745,893)

Compensated absences are not due and payable in the current period and therefore are not reported in the funds.

	<u>(365,966)</u>
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**Net Position of Governmental Activities**

	<u><u>(\$6,137,950)</u></u>
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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, 2019

	General	All Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Intergovernmental	\$253,940	\$575,856	\$829,796
Interest	40,110	0	40,110
Tuition and Fees	175,026	0	175,026
Customer Sales and Services	5,221,494	0	5,221,494
Miscellaneous	8,675	0	8,675
<b>Total Revenues</b>	<b>5,699,245</b>	<b>575,856</b>	<b>6,275,101</b>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	329,242	0	329,242
Special	2,675,389	574,701	3,250,090
Support Services:			
Pupils	1,692,170	0	1,692,170
Instructional Staff	521,742	0	521,742
Board of Education	42,221	0	42,221
Administration	363,330	0	363,330
Fiscal	243,073	0	243,073
Operation and Maintenance of Plant	47,769	0	47,769
Pupil Transportation	7,578	0	7,578
Central	45,094	0	45,094
<b>Total Expenditures</b>	<b>5,967,608</b>	<b>574,701</b>	<b>6,542,309</b>
Net Changes in Fund Balances	(268,363)	1,155	(267,208)
Fund Balances (Deficit) at Beginning of Year	1,206,256	(2,452)	1,203,804
Fund Balances (Deficit) at End of Year	\$937,893	(\$1,297)	\$936,596

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, 2019

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**Net Change in Fund Balances - Total Governmental Funds** (\$267,208)

*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	5,807	
Depreciation expense	<u>(3,117)</u>	
Excess of capital outlay expense over depreciation expense		2,690

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.

Intergovernmental		15,848
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Contractually required contributions are reported as expenditures in governmental funds; however, the Statement of Net Position reports these amounts as deferred outflows.

Pension	581,164	
OPEB	<u>39,273</u>	
Total		620,437

Except for amounts reported as deferred inflows/outflows, changes in net pension liability are reported as pension expense in the Statement of Activities

Pension	(981,873)	
OPEB	<u>612,911</u>	
Total		(368,962)

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		<u>(19,694)</u>
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**Change in Net Position of Governmental Activities** (\$16,889)

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Fiduciary Assets and Liabilities  
June 30, 2019

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	<u>Agency</u>
<b>Assets</b>	
Cash and Cash Equivalents in Segregated Accounts	<u>\$8,386,449</u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$8,386,449</u>

See Accompanying Notes to the Basic Financial Statements

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***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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

The Brown County Educational Service Center (the “Educational Service Center”) operates under a Governing Board as defined by Section 3313.01 of the Ohio Revised Code. The Brown County Governing Board was chartered to operate by the State Board of Education on June 10, 1968. The Governing Board consists of five members elected at large for staggered four-year terms. The Educational Service Center is an administrative entity providing supervision and certain other services to local school districts located in Brown County. The Educational Service Center employs 47 certified and 89 classified staff members and provides services to the local and exempted village school districts.

**Reporting Entity**

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

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

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

Jointly Governed Organization  
Metropolitan Educational Technology Association (META)

Insurance Purchasing Pool  
Cincinnati USA Regional Group Rating Plan

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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

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

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

**Basis of Presentation**

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

**Government-wide Financial Statements**

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

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

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

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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### Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds. 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, 2019

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### **Measurement Focus**

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

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

#### **Fund Financial Statements**

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

### **Basis of Accounting**

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

#### **Revenues – Exchange and Non-exchange Transactions**

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

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



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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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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, customer sales and services, and grants are considered to be both measurable and available at fiscal year-end.

### Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Educational Service Center, deferred outflows of resources are reported on the government-wide statement of net position for pension and OPEB plans. The deferred outflows of resources related to pension and OPEB are explained in Notes 9 and 10. The details of these unavailable revenues are identified on the Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities found on page 61.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized until that time. For the Educational Service Center, deferred inflows of resources included pension and OPEB plans. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position (See Notes 9 and 10).

### 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.”

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

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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During fiscal year 2019, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Educational Service Center measures their investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For the fiscal year 2019, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$100 million, requiring the excess amount to be transacted the following business day(s), but only to the \$100 million limit. All accounts of the participant will be combined for these purposes.

Following Ohio statutes, the 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 2019 amounted to \$40,110.

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

### **Prepaid Items**

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

### **Inventory**

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

### **Capital Assets**

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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Capital assets are capitalized at cost (or estimated historical cost which is determined by indexing the current replacement cost back to the year of acquisition) and are updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their acquisition values as of the date received. The Educational Service Center maintains a capitalization threshold of \$1,500. The Educational Service Center does not possess any infrastructure.

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

**Compensated Absences**

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

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

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

On the governmental fund financial statements, compensated absences are recognized as a liability and expenditures to the extent that payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "Matured Compensated Absences Payable" in the fund from which the employees will be paid.

**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 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. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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**Pensions/Other Postemployment Benefits (OPEB)**

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

**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, 2019

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**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, 2019

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### **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 2019, the Educational Service Center had no flow through grants.

### **Note 3 – Change In Accounting Principles**

For fiscal year 2019, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* and Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*,

For fiscal year 2019, the Educational Service Center also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2017-2*. These changes were incorporated in the Educational Service Center's 2019 financial statements; however, there was no effect on beginning net position/fund balance.

GASB 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the Educational Service Center's 2019 financial statements; however, there was no effect on beginning net position.

GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. These changes were incorporated in the Educational Service Center's 2019 financial statements; however, there was no effect on beginning net position.

### **Note 4 – Deposits and Investments**

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

Active monies are public monies determined to be necessary to meet current demands upon the Educational Service Center's treasury. Active monies must be maintained either as cash in the Educational Service Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts. Inactive deposits are public deposits that the Governing Board has identified as not required for use

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2019

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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.

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

Treasurer of State to secure the repayment of all public monies deposited in the financial institution. Interim monies held by the Educational Service Center can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, and with certain limitations, including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;

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6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAROhio); and
8. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met.

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 Educational Service Center, 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.

Investments

As of June 30, 2019, the Educational Service Center only had investments in Star Ohio.

<u>Measurement/Investment</u>	<u>Measurement Amount</u>	<u>Average Maturity</u>
Net Asset Value Per Share:		
STAROhio	<u>\$4,107,799</u>	45.5

Interest Rate Risk

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

Credit Risk

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



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Concentration of Credit Risk

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

Note 5 – Receivables

Receivables at June 30, 2019, consisted of 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 receivables:

	<u>Amount</u>
<u>Governmental Activities:</u>	
Bureau of Worker's Compensation Reimbursement	\$15,848
Ohio Department of Education	385
Miscellaneous Receivables	<u>14,221</u>
Total Intergovernmental Receivable	<u><u>\$30,454</u></u>

Note 6 – Capital Assets

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

	<u>Ending Balance 6/30/2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2019</u>
<u>Governmental Activities:</u>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$72,142	\$5,807	(\$5,621)	\$72,328
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(53,367)</u>	<u>(3,117) *</u>	<u>5,621</u>	<u>(50,863)</u>
Depreciable Capital Assets, Net	<u><u>\$18,775</u></u>	<u><u>\$2,690</u></u>	<u><u>\$0</u></u>	<u><u>\$21,465</u></u>

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

Instruction:	
Special	\$376
Support Services:	
Pupils	1,248
Administration	1,100
Fiscal	393
Total Depreciation Expense	<u><u>\$3,117</u></u>

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

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$27.00 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount includes a proration factor equal to 0.766461550 that is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**Note 8 – Risk Management**

**Liability Insurance**

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2019, professional liability was provided by the Argonaut Insurance Company with a \$3,000,000 aggregate limit.

Liberty Mutual Insurance Company maintains a \$20,000 public official bond for the Treasurer.

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 2019, the Educational Service Center participated in the Cincinnati USA Chamber of Commerce group rating program, an insurance purchasing pool (See Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of

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Notes to the Basic Financial Statements  
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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 school districts 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 school districts that can meet the GRP's selection criteria. The firm of Sheakley UniComp 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 14) consisting of nine districts. The Consortium has elected to have United Healthcare provide medical coverage purchased as a group through the Consortium. Dental coverage is being provided through a shared risk pool based on member districts' number of employees. The 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.

**Note 9 - Defined Benefit Pension Plans**

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

***Net Pension/OPEB Liability***

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

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

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

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net OPEB asset* or long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 10 for the required OPEB disclosures.

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

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

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Age and service requirements for retirement are as follows:

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

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

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

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

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, 2019, the allocation to pension, death benefits, and Medicare B was 13.5 percent. The remaining .5 percent was allocated to the Health Care Fund.

The Educational Service Center’s contractually required contribution to SERS was \$231,928 for fiscal year 2019. Of this amount, \$29,694 is reported as an intergovernmental payable.

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

Plan Description – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial

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Notes to the Basic Financial Statements  
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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 is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. In April 2017, the Retirement Board made the decision to reduce COLA granted on or after July 1, 2017, to 0 percent to preserve the fiscal integrity of the retirement system. Benefit recipients' base benefit and past cost-of-living increases are not affected by this change. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 30 years of service regardless of age. Eligibility changes will be phased in until August 1, 2026, when retirement eligibility for unreduced benefits will be five years of service credit and age 65, or 35 years of service credit and at least age 60.

The DC Plan allows members to place all their member contributions and 9.53 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.47 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent goes to the DB Plan. Member contributions to the DC Plan are allocated among investment choices by the member, and contributions to the DB Plan from the employer and the member are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity after termination of employment at age 50 or later.

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

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at

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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. For the fiscal year ended June 30, 2019, the employer rate was 14 percent and the plan members were also required to contribute 14 percent of covered salary. The fiscal year 2019, the contribution rates were equal to the statutory maximum rates and the full employer contribution was allocated to pension.

The Educational Service Center's contractually required contribution to STRS was \$349,236 for fiscal year 2019. Of this amount, \$41,600 is reported as an intergovernmental payable.

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

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability			
Prior Measurement Date	0.04696730%	0.01862016%	
Proportion of the Net Pension Liability			
Current Measurement Date	<u>0.04834080%</u>	<u>0.02122682%</u>	
Change in Proportionate Share	<u>0.00137350%</u>	<u>0.00260666%</u>	
Proportionate Share of the Net			
Pension Liability	\$2,768,566	\$4,667,302	\$7,435,868
Pension Expense	\$421,967	\$559,906	\$981,873

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

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	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$151,839	\$107,736	\$259,575
Changes of assumptions	62,520	827,134	889,654
Changes in proportionate share and difference between Educational Service Center's contributions and proportionate share of contributions	259,727	499,453	759,180
Educational Service Center's contributions subsequent to the measurement date	231,928	349,236	581,164
<b>Total Deferred Outflows of Resources</b>	<u><u>\$706,014</u></u>	<u><u>\$1,783,559</u></u>	<u><u>\$2,489,573</u></u>
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$0	\$30,480	\$30,480
Net difference between projected and actual earnings on pension plan investments	76,709	283,020	359,729
Changes in proportionate share and difference between Educational Service Center's contributions and proportionate share of contributions	1,519	30,487	32,006
<b>Total Deferred Outflows of Resources</b>	<u><u>\$78,228</u></u>	<u><u>\$343,987</u></u>	<u><u>\$422,215</u></u>

\$581,164 reported as deferred outflows of resources related to pension resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	\$384,764	\$511,856	\$896,620
2021	125,477	411,180	536,657
2022	(90,857)	131,397	40,540
2023	(23,526)	35,903	12,377
<b>Total</b>	<u><u>\$395,858</u></u>	<u><u>\$1,090,336</u></u>	<u><u>\$1,486,194</u></u>

**Actuarial Assumptions - SERS**

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



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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, 2018, are presented below:

Wage Inflation	3.00 percent
Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	2.5 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

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

The most recent experience study was completed for the five year period ended June 30, 2015.

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

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

**Discount Rate** The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Educational Service Center's proportionate share of the net pension liability	\$3,899,736	\$2,768,566	\$1,820,158

**Actuarial Assumptions - STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the July 1, 2018, actuarial valuation, are presented below:

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Inflation	2.50 percent
Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Discount Rate of Return	7.45 percent
Payroll Increases	3 percent
Cost-of-Living Adjustments (COLA)	0.0 percent, effective July 1, 2017

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

Actuarial assumptions used in the July 1 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016.

STRS' investment consultant develops an estimate range for the investment return assumption based on the target allocation adopted by the Retirement Board. The target allocation and long-term expected rate of return for each major asset class are summarized as follows:

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

\* 10 year annualized geometric nominal returns, which include the real rate of return and inflation of 2.25 percent and does not include investment expenses. Over a 30-year period, STRS' investment consultant indicates that the above target allocations should generate a return above the actuarial rate of return, without net value added by management.

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**Discount Rate** The discount rate used to measure the total pension liability was 7.45 percent as of June 30, 2018. The projection of cash flows used to determine the discount rate assumes that member and employer contributions will be made at the statutory contribution rates in accordance with 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. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2018. Therefore, the long-term expected rate of return on pension plan investments of 7.45 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2018.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.45 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.45 percent) or one-percentage-point higher (8.45 percent) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Educational Service Center's share share of the net pension liability	\$6,815,979	\$4,667,302	\$2,848,737

**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, 2019, one member of the Board of Education elected Social Security. The contribution rate is 6.2 percent of wages.

**Note 10 – Post-Employment Benefits**

See Note 9 for a description of the net OPEB liability.

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

Health Care Plan Description - The Educational Service Center contributes to the SERS Health Care Fund, administered by SERS for non-certificated retirees and their beneficiaries. For GASB 75 purposes, this plan is considered a cost-sharing other postemployment benefit (OPEB) plan. SERS' Health Care Plan provides healthcare benefits to eligible individuals receiving retirement, disability, and survivor benefits, and to their eligible dependents. Members who retire after June 1, 1986, need 10 years of service credit, exclusive of most types of purchased credit, to qualify to participate in SERS' health care coverage. In addition to age and service retirees, disability benefit recipients and beneficiaries who are receiving monthly benefits due to the death of a member or retiree, are eligible for SERS' health care coverage. Most retirees and dependents choosing SERS' health care coverage

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are over the age of 65 and therefore enrolled in a fully insured Medicare Advantage plan; however, SERS maintains a traditional, self-insured preferred provider organization for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care is a benefit that is permitted, not mandated, by statute. The financial report of the Plan is included in the SERS Comprehensive Annual Financial Report which can be obtained on SERS' website at [www.ohsers.org](http://www.ohsers.org) under Employers/Audit Resources.

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required pensions and benefits, the Retirement Board may allocate the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund in accordance with the funding policy. For fiscal year 2019, .5 percent of covered payroll was made to health care. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. For fiscal year 2019, this amount was \$21,600. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2019, the Educational Service Center's surcharge obligation was \$30,683.

The surcharge, added to the allocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. The Educational Service Center's contractually required contribution to SERS was \$39,273 for fiscal year 2019. Of this amount, \$31,783 is reported as an intergovernmental payable.

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

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS to offer the Plan and gives the Retirement Board discretionary authority over how much, if any, of the health care costs will be

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absorbed by STRS. Active employee members do not contribute to the Health Care Plan. Nearly all health care plan enrollees, for the most recent year, pay a portion of the health care costs in the form of a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2019, STRS did not allocate any employer contributions to post-employment health care.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net OPEB Liability			
Prior Measurement Date	0.04756990%	0.01862016%	
Proportion of the Net OPEB Liability			
Current Measurement Date	<u>0.04907550%</u>	<u>0.02122682%</u>	
Change in Proportionate Share	<u><u>0.00150560%</u></u>	<u><u>0.00260666%</u></u>	
 Proportionate Share of the:			
Net OPEB (Asset)	\$0	(\$341,093)	(\$341,093)
Net OPEB Liability	1,361,487	0	1,361,487
OPEB Expense	\$110,669	(\$723,580)	(\$612,911)

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

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$22,224	\$39,840	\$62,064
Changes in proportionate share and difference between Educational Service Center contributions and proportionate share of contributions	92,949	96,694	189,643
Educational Service Center contributions subsequent to the measurement date	<u>39,273</u>	<u>0</u>	<u>39,273</u>
Total Deferred Outflows of Resources	<u><u>\$154,446</u></u>	<u><u>\$136,534</u></u>	<u><u>\$290,980</u></u>

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Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2019

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$0	\$19,873	\$19,873
Changes of assumptions	122,319	464,767	587,086
Net difference between projected and actual earnings on OPEB plan investments	2,043	38,967	41,010
<b>Total Deferred Inflows of Resources</b>	<u>\$124,362</u>	<u>\$523,607</u>	<u>\$647,969</u>

\$39,273 reported as deferred outflows of resources related to OPEB resulting from Educational Service Center contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Fiscal Year Ending June 30:			
2020	(\$6,670)	(\$70,370)	(\$77,040)
2021	(5,027)	(70,370)	(75,397)
2022	179	(70,370)	(70,191)
2023	1,049	(61,520)	(60,471)
2024	908	(58,415)	(57,507)
Thereafter	372	(56,028)	(55,656)
<b>Total</b>	<u>(\$9,189)</u>	<u>(\$387,073)</u>	<u>(\$396,262)</u>

***Actuarial Assumptions - SERS***

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

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

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

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

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

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and Scale BB, 120 percent of male rates and 110 percent of female rates. RP-2000 Disabled Mortality Table with 90 percent for male rates and 100 percent for female rates set back five years.

The most recent experience study was completed for the five year period ended June 30, 2015.

The long-term expected rate of return on plan assets is reviewed as part of the actuarial five-year experience study. The most recent study covers fiscal years 2010 through 2015, and was adopted by the Board on April 21, 2016. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return, 7.50 percent, by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.



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For the Fiscal Year Ended June 30, 2019

The SERS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as pension plan, see Note 9.

**Discount Rate** The discount rate used to measure the total OPEB liability at June 30, 2018, was 3.70 percent. The discount rate used to measure total OPEB liability prior to June 30, 2018, was 3.63 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made from members and the System at the state statute contribution rate of 2.00 percent of projected covered employee payroll each year, which includes a 1.50 percent payroll surcharge and 0.50 percent of contributions from the basic benefits plan. Based on these assumptions, the OPEB plan's fiduciary net position was projected to become insufficient to make future benefit payments during the fiscal year ending June 30, 2025. Therefore, the long-term expected rate of return on OPEB plan assets was used to present value the projected benefit payments through the fiscal year ending June 30, 2024, and the Fidelity General Obligation 20-year Municipal Bond Index rate of 3.62 percent, as of June 30, 2018 (i.e. municipal bond rate), was used to present value the projected benefit payments for the remaining years in the projection. The total present value of projected benefit payments from all years was then used to determine the single rate of return that was used as the discount rate. The projection of future benefit payments for all current plan members was until the benefit payments ran out.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates** The net OPEB liability is sensitive to changes in the discount rate and the health care cost trend rate. The following table presents the net OPEB liability of SERS, what SERS' net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.70%) and higher (4.70%) than the current discount rate (3.70%). Also shown is what SERS' net OPEB liability would be based on health care cost trend rates that are 1 percentage point lower (6.25% decreasing to 3.75%) and higher (8.25% decreasing to 5.75%) than the current rate.

	1% Decrease (2.70%)	Current Discount Rate (3.70%)	1% Increase (4.70%)
Educational Service Center's proportionate share of the net OPEB liability	\$1,652,057	\$1,361,487	\$1,131,410

	1% Decrease (6.25 % decreasing to 3.75 %)	Current Trend Rate (7.25 % decreasing to 4.75 %)	1% Increase (8.25 % decreasing to 5.75 %)
Educational Service Center's proportionate share of the net OPEB liability	\$1,098,470	\$1,361,487	\$1,709,768

**Actuarial Assumptions – STRS**

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results used in the June 30, 2018, actuarial valuation are presented below:

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Notes to the Basic Financial Statements  
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Projected salary increases	12.50 percent at age 20 to 2.50 percent at age 65
Investment Rate of Return	7.45 percent, net of investment expenses, including inflation
Payroll Increases	3 percent
Discount Rate of Return - Current Year	7.45 percent
Blended Discount Rate of Return - Prior Year	4.13 percent
Health Care Cost Trends	
Medical	
Pre-Medicare	6 percent initial, 4 percent ultimate
Medicare	5 percent initial, 4 percent ultimate
Prescription Drug	
Pre-Medicare	8 percent initial, 4 percent ultimate
Medicare	-5.23 initial, 4 percent ultimate

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

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

Actuarial assumptions used in the June 30, 2018, valuation are based on the results of an actuarial experience study for the period July 1, 2011, through June 30, 2016.

Since the prior measurement date, the discount rate was increased from the blended rate of 4.13 percent to the long-term expected rate of return of 7.45 percent based on the methodology defined under GASB *Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*. Valuation year per capita health care costs were updated.

Also since the prior measurement date, the subsidy multiplier for non-Medicare benefit recipients was reduced from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium was increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were discontinued beginning January 1, 2020. However, in June of 2019, the STRS Board voted to extend the current Medicare Part B partial reimbursement for one year.

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Notes to the Basic Financial Statements  
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The STRS health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 9.

**Discount Rate** The discount rate used to measure the total OPEB liability was 7.45 percent as of June 30, 2018. The blended discount rate used to measure the total OPEB liability was 4.13 percent as of June 30, 2017. The projection of cash flows used to determine the discount rate assumes STRS Ohio continues to allocate no employer contributions to the health care fund. Based on these assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term expected rate of return on health care plan investments of 7.45 percent was used to measure the total OPEB liability as of June 30, 2018. The blended discount rate of 4.13 percent, which represents the long-term expected rate of return of 7.45 percent for the funded benefit payments and the Bond Buyer 20-year municipal bond rate of 3.58 percent for the unfunded benefit payments, was used to measure the total OPEB liability as of June 30, 2017.

**Sensitivity of the Educational Service Center's Proportionate Share of the Net OPEB Asset to Changes in the Discount and Health Care Cost Trend Rate** The following table represents the net OPEB asset as of June 30, 2018, calculated using the current period discount rate assumption of 7.45 percent, as well as what the net OPEB asset would be if it were calculated using a discount rate that is one percentage point lower (6.45 percent) or one percentage point higher (8.45 percent) than the current assumption. Also shown is the net OPEB asset as if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current health care cost trend rates.

	<u>1% Decrease (6.45%)</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase (8.45%)</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$292,349)	(\$341,093)	(\$382,061)
	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Educational Service Center's proportionate share of the net OPEB asset	(\$379,748)	(\$341,093)	(\$301,836)

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Notes to the Basic Financial Statements  
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**Note 11 – Employee Benefits**

**Compensated Absences**

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

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

**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 Guardian Life Insurance Company.

**125 Plan**

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

**Note 12 – Leases – Lessee Disclosure**

The Educational Service Center leases building space under non-cancelable operating leases. This operating lease ended June 30, 2019 and a new lease was entered into for a five year period beginning July 1, 2019 and ending on June 30, 2024. The new lease will automatically renew for an additional five year period unless either party provides written notice to the other of its intent to decline the automatic renewal option not less than twelve months prior to expiration. Operating lease payments are reported as function expenditures in the General Fund. Total operating lease payments in fiscal year 2019 were \$52,065. Future Lease payments are as follows:

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<u>Year</u>	<u>Amount</u>
2020	\$57,272
2021	61,853
2022	64,946
2023	67,544
2024	69,570
Total	<u>\$321,185</u>

**Note 13 – Long-Term Obligations**

The changes in the Educational Service Center’s long-term obligations during fiscal year 2019 were as follows:

	<u>Principal Outstanding 6/30/18</u>	<u>Additions</u>	<u>Deductions</u>	<u>Amount Outstanding 6/30/19</u>	<u>Amount Due in One Year</u>
<u>Governmental Activities:</u>					
Net Pension Liability:					
SERS	\$2,806,192	\$0	\$37,626	\$2,768,566	\$0
STRS	4,423,260	244,042	0	4,667,302	0
Total Net Pension Liability	<u>7,229,452</u>	<u>244,042</u>	<u>37,626</u>	<u>7,435,868</u>	<u>0</u>
Net OPEB Liability:					
SERS	1,276,651	84,836	0	1,361,487	0
STRS	726,490	0	726,490	0	0
Total Net OPEB Liability	<u>2,003,141</u>	<u>84,836</u>	<u>726,490</u>	<u>1,361,487</u>	<u>0</u>
Compensated Absences	<u>346,272</u>	<u>131,661</u>	<u>111,967</u>	<u>365,966</u>	<u>25,917</u>
Total Governmental Activities Long-Term Obligations	<u>\$9,578,865</u>	<u>\$460,539</u>	<u>\$876,083</u>	<u>\$9,163,321</u>	<u>\$25,917</u>

The Educational Service Center pays obligations related to employee compensation from the fund benefitting from their service. Compensated absences will be paid from the General Fund. There is no repayment schedule for the net pension/OPEB liability. However, employer pension contributions are made from the General Fund. For additional information related to the net pension/OPEB liability see Notes 9 and 10.

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

**Metropolitan Educational Technology Association (META)**

The Educational Service Center is a participant in the Metropolitan Educational Technology Association (META), which is a computer consortium and a regional council of governments. META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology, and student services, a purchasing cooperative, and other individual services based on each client’s needs.

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The governing board of META consists of a president, vice president and twelve board members who represent the members of META. The Board works with META's Chief Executive Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Association 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 META \$5,194 for services provided during the fiscal year. Financial information can be obtained from META Solutions, David Varda, CFO, 100 Executive Drive, Marion Ohio 43302.

### **Insurance Purchasing Pool**

The Educational Service Center participates in the Cincinnati USA Chamber Group Rating Program, an insurance purchasing pool. Each year, the Educational Service Center pays an enrollment fee to Sheakley 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 931 Hamer Road, Georgetown, Ohio 45121.

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**Note 15 – Contingencies**

**Grants**

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2019, if applicable, cannot be determined at this time.

**Litigation**

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

**Note 16 – Significant Commitments**

**Encumbrances**

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

General Fund	\$37,047
Nonmajor Governmental Funds	1,116
Total	<u>\$38,163</u>

**Note 17 - Fund Balances**

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

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<u>Fund Balances</u>	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<i><b>Nonspendable</b></i>			
Inventory	\$102,892	\$0	\$102,892
Prepays	14,619	0	14,619
<i>Total Nonspendable</i>	<u>117,511</u>	<u>0</u>	<u>117,511</u>
<i><b>Assigned to</b></i>			
Purchases on Order	32,501	0	32,501
<i>Unassigned</i>	<u>787,881</u>	<u>(1,297)</u>	<u>786,584</u>
<i>Total Fund Balances</i>	<u>\$937,893</u>	<u>(\$1,297)</u>	<u>\$936,596</u>

**Note 18 – Accountability**

At June 30, 2019, the Preschool Special Revenue Fund had a deficit balance of \$1,297. The General Fund provides transfers to cover deficit balances; however this is done when cash is needed rather than when accruals occur.

**Note 19 – Subsequent Events**

The United State and the State of Ohio declared a state of emergency in March 2020 due to the COVID-19 pandemic. The financial impact of COVID-19 and the ensuing emergency measures may impact subsequent periods of the Educations Service Center. The Educational Service Center’s investment portfolio and in the investments of the pension and other employees benefit plan in which the Educational Service Center participates fluctuate with market conditions, and due to the market volatility, the amount of gains or losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the Educational Service Center’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

**Note 20 – Interfund Activity**

Interfund balances at June 30, 2019, consist of the following individual interfund receivable and payable:



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		<b>Receivable</b>
		<u>General Fund</u>
<b>Payable</b>	Nonmajor Governmental Funds	<u>\$1,149</u>

The balance of \$1,149 due to the General Fund from the nonmajor governmental funds are a result of negative cash balances in these funds. The General Fund is responsible for any deficit in these funds and interfund transactions were established to cover these expenditures. The purpose for the interfund balances is to eliminate the negative cash balances in these funds.

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**BROWN COUNTY EDUCATIONAL SERVICE CENTER**  
 Required Supplementary Information  
 Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability  
 School Employees Retirement System of Ohio  
 Last Six Fiscal Years (1)

	2019	2018	2017	2016
Educational Service Center's Proportion of the Net Pension Liability	0.04834080%	0.04696730%	0.04212930%	0.03572920%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$2,768,566	\$2,806,192	\$3,083,477	\$2,038,742
Educational Service Center's Covered Payroll	\$1,684,533	\$1,493,564	\$1,337,321	\$1,094,371
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	164.35%	187.89%	230.57%	186.29%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.36%	69.50%	62.98%	69.16%

(1) Information prior to 2014 is not available.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.03659200%	0.03659200%
\$1,851,900	\$2,176,009
\$1,066,733	\$1,242,191
173.60%	175.18%
71.70%	65.52%

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability

School Employees Retirement System of Ohio

Last Three Fiscal Years (1)

	2019	2018	2017
Educational Service Center's Proportion of the Net OPEB Liability	0.04907550%	0.04756990%	0.04230980%
Educational Service Centers's Proportionate Share of the Net OPEB Liability	\$1,361,487	\$1,276,651	\$1,205,986
Educational Service Center's Covered Payroll	\$1,684,533	\$1,493,564	\$1,337,321
Educational Service Center's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered - Payroll	80.82%	85.48%	90.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.57%	12.46%	11.49%

(1) Information prior to 2017 is not available.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

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**BROWN COUNTY EDUCATIONAL SERVICE CENTER**  
 Required Supplementary Information  
 Schedule of the Educational Service Center's Proportionate Share of the Net Pension Liability  
 School Teachers Retirement System of Ohio  
 Last Six Fiscal Years (1)

	2019	2018	2017	2016
Educational Service Center's Proportion of the Net Pension Liability	0.02122682%	0.01862016%	0.01852055%	0.01769088%
Educational Service Center's Proportionate Share of the Net Pension Liability	\$4,667,302	\$4,423,260	\$6,199,387	\$4,889,241
Educational Service Center's Covered Payroll	\$2,455,814	\$2,118,821	\$1,937,571	\$1,854,743
Educational Service Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered - Payroll	190.05%	208.76%	319.96%	263.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.30%	75.30%	66.80%	72.10%

(1) Information prior to 2014 is not available.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>
0.01821580%	0.08215800%
\$4,430,712	\$5,277,836
\$1,855,246	\$1,819,615
238.33%	290.05%
74.70%	69.30%



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information

Schedule of the Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)

School Teachers Retirement System of Ohio

Last Three Fiscal Years (1)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Educational Service Center's Proportion of the Net OPEB Liability (Asset)	0.02122682%	0.01862016%	0.01852055%
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset)	(\$341,093)	\$726,490	\$990,484
Educational Service Center's Covered Payroll	\$2,455,814	\$2,118,821	\$1,937,571
Educational Service Center's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered - Payroll	(13.89)%	34.29%	51.12%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	176.00%	47.10%	37.30%

(1) Information prior to 2017 is not available.

\*Amounts presented for each fiscal year were determined as of the Educational Service Center's measurement date which is the prior fiscal year end.

See accompanying notes to the required supplementary information

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**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information  
Schedule of the Educational Service Center's Contributions  
School Employees Retirement System of Ohio  
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$231,928	\$227,412	\$209,099	\$187,225
Contributions in Relation to the Contractually Required Contribution	<u>(231,928)</u>	<u>(227,412)</u>	<u>(209,099)</u>	<u>(187,225)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll (1)	\$1,717,985	\$1,684,533	\$1,493,564	\$1,337,321
Pension Contributions as a Percentage of Covered Payroll	<u>13.50%</u>	<u>13.50%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution (2)	8,590	8,423	0	0
Contributions in Relation to the Contractually Required Contribution	<u>(8,590)</u>	<u>(8,423)</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.50%</u>	<u>0.50%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll (2)	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

(1) The Educational Service Center's covered payroll is the same for Pension and OPEB.

(2) Excludes Surcharge

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$144,238	\$147,849	\$171,919	\$130,340	\$144,422	\$121,005
<u>(144,238)</u>	<u>(147,849)</u>	<u>(171,919)</u>	<u>(130,340)</u>	<u>(144,422)</u>	<u>(121,005)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,094,371	\$1,066,733	\$1,242,191	\$969,071	\$1,148,942	\$893,685
<u>13.18%</u>	<u>13.86%</u>	<u>13.84%</u>	<u>13.45%</u>	<u>12.57%</u>	<u>13.54%</u>
8,974	1,474	4,220	5,802	15,978	19,729
<u>(8,974)</u>	<u>(1,474)</u>	<u>(4,220)</u>	<u>(5,802)</u>	<u>(15,978)</u>	<u>(19,729)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.82%</u>	<u>0.14%</u>	<u>0.16%</u>	<u>0.55%</u>	<u>1.43%</u>	<u>2.21%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>15.75%</u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Required Supplementary Information

Schedule of the Educational Service Center's Contributions

School Teachers Retirement System of Ohio

Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$349,236	\$343,814	\$296,635	\$271,260
Contributions in Relation to the Contractually Required Contribution	<u>(349,236)</u>	<u>(343,814)</u>	<u>(296,635)</u>	<u>(271,260)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Educational Service Center Covered Payroll	\$2,494,543	\$2,455,814	\$2,118,821	\$1,937,571
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$0	\$0	\$0	\$0
Contributions in Relation to the Contractually Required Contribution	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

See accompanying notes to the required supplementary information

<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$259,664	\$241,182	\$236,550	\$247,854	\$247,579	\$268,909
<u>(259,664)</u>	<u>(241,182)</u>	<u>(236,550)</u>	<u>(247,854)</u>	<u>(247,579)</u>	<u>(268,909)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$1,854,743	\$1,855,246	\$1,819,615	\$1,906,569	\$1,904,454	\$2,068,531
<u>14.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>	<u>13.00%</u>
\$0	\$18,590	\$18,196	\$19,066	\$19,045	\$20,685
<u>0</u>	<u>(18,590)</u>	<u>(18,196)</u>	<u>(19,066)</u>	<u>(19,045)</u>	<u>(20,685)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>	<u>1.00%</u>
<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2019

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**State Teachers Retirement System**

**Pension**

**Changes in benefit terms**

There were no changes to benefit terms for fiscal years 2015 through 2017. For fiscal year 2018, the cost of living adjustment (COLA) was reduced to 0 percent effective July 1, 2017. There were no changes to benefit terms for fiscal year 2019.

**Changes in Assumptions**

There were no changes in assumptions for fiscal years 2015 through 2017.

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date:

- Inflation assumptions were lowered from 2.75 percent to 2.50 percent.
- Investment return assumptions were lowered from 7.75 percent to 7.45 percent.
- Total salary increases rates were lowered by decreasing merit component of the individual salary increases, as well as by 0.25 percent due to lower inflation.
- Payroll growth assumptions were lowered to 3.00 percent.
- Updated the health and disability mortality assumption to the RP-2014 mortality tables with generational improvement scale MP-2016.
- Rates of retirement, termination and disability were modified to better reflect anticipated future experience.

There were no changes in assumptions for fiscal year 2019.

**OPEB**

**Changes in benefit terms**

There were no changes to benefit terms for fiscal year 2017.

For fiscal year 2018, STRS has the following changes in benefit terms since the previous measurement date:

- The HealthSpan HMO plans were eliminated.
- The subsidy multiplier for non-Medicare benefit recipient was reduced to 1.9 percent per year of service from 2.1 percent.
- Medicare Part B premium reimbursements were discontinued for survivors and beneficiaries who were age 65 by 2008 and either receiving a benefit or named as a beneficiary as of January 1, 2008.
- The remaining Medicare Part B premium reimbursements will be phased out over a three-year period.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to Required Supplementary Information

For the Fiscal Year Ended June 30, 2019

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For fiscal year 2019, the following was the most significant change in benefit terms that affected the total OPEB liability since the prior measurement date:

- The subsidy multiplier for non-Medicare benefit recipients increased from 1.9 percent to 1.944 percent per year of service effective January 1, 2019. The non-Medicare frozen subsidy base premium increased effective January 1, 2019 and all remaining Medicare Part B premium reimbursements were scheduled to be discontinued beginning January 1, 2020, through the STRS Board voted in June 2019 to extent the current Medicare Part B partial reimbursement for one year.

**Changes in assumptions**

There were no changes in assumptions for fiscal year 2017.

For fiscal year 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 3.26 percent to 4.13 percent based on the methodology defined under GASB 74.
- The long-term rate of return was reduced to 7.45 percent.
- Valuation-year per capita health costs were updated.
- The percentage of future retirees electing each option was updated based on current data.
- The assumed future trend rates were modified.
- Decrement rates including mortality, disability, retirement, and withdrawal were modified.
- The assumed percentage of future disabled retirees assumed to elect health coverage was decreased from 84 percent to 65 percent, and the assumed percentage of terminated vested participants assumed to elect health coverage at retirement was decreased from 47 percent to 30 percent.
- The assumed salary scale was modified.

For fiscal year 2019, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date.

- The discount rate increased from a 4.13 percent blended discount rate to 7.45 percent.
- The health care trend assumption rate changed from 6 to 11 percent initial, 4.5 percent ultimate to:
  - Medical Medicare – 6 percent initial, 4 percent ultimate
  - Medical Pre-Medicare – 5 percent initial, 4 percent ultimate
  - Prescription Drug Medicare – from 8 percent to 7.73 percent initial, 4 percent ultimate
  - Prescription Drug Pre-Medicare – from – 5.23 percent to 9.62 percent initial, 4 percent ultimate



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2019

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**School Employees Retirement System**

**Pension**

**Changes in benefit terms**

There were no changes to benefit terms for fiscal years 2015 through 2017.

For fiscal year 2018, the following were the most significant changes in benefit that affected the total pension liability since the prior measurement date:

- The cost-of-living adjustment was changed from a fixed 3.00 percent to a cost-of-living adjustment that is indexed to CPI-W not greater than 2.5 percent with a floor of 0 percent beginning January 1, 2018. In addition, with the authority granted the Board under HB 49, the Board has enacted a three-year COLA suspension for benefit recipients in calendars 2018, 2019, and 2020.

There were not changes to benefit terms for fiscal year 2019.

**Changes in assumptions**

There were no changes in assumptions for fiscal years 2015 through 2017.

For fiscal year 2018, the following changes were made to the actuarial assumptions as identified. These new assumptions compared with those used in fiscal year 2016 and prior are presented below:

- Assumed rate of inflation was reduced from 3.25% to 3.00%
- Payroll Growth Assumption was reduced from 4.00% to 3.50%
- Assumed real wage growth was reduced from .075% to 0.50%
- Rates of withdrawal, retirement and disability were updated to reflect recent experience.
- Mortality amount active members was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection and a five year age set-back for both males and females. The above rates represent the base rates used.
- Mortality amount service retired members, and beneficiaries was updated to the following:
  - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates.
- Mortality among disable member was updated to the following:
  - RP-2000 Disabled Mortality Table 90% for male rates and 100% for female rates, set back five years is used for the prior after disability retirement.

There were no changes to assumptions for fiscal year 2019.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to Required Supplementary Information  
For the Fiscal Year Ended June 30, 2019

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**OPEB**

**Changed in benefit terms**

There were no changes to benefit terms for fiscal years 2017 through 2019.

**Changes in assumptions**

For fiscal year 2017, the following was the most significant change of assumptions that affected the total OPEB liability since the prior measurement date:

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

For fiscal year 2018, the following was the most significant change of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was increased from 2.98 percent to 3.63.

For fiscal year 2019, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date:

- The discount rate was changed from 3.63 percent to 3.70 percent.
- The municipal bond index rate increased from 3.56 percent to 3.62 percent.
- The single equivalent interest rate, net of plan investment expense, including price inflation increased from 3.63 percent to 3.70 percent.
- The medical trend assumption rate changed as follows:
  - Medicare – 2018 – 5.50 to 5.00 percent, 2019 – 5.375 to 4.75 percent
  - Pre-Medicare – 2018 – 7.50 to 5.00 percent, 2019 – 7.25 to 4.75 percent

**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 Auditor's Report

Board of Education  
Brown County Educational Service Center  
9231 B Hamer Road  
Georgetown, Ohio 45121

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 Brown County Educational Service Center, Brown County, Ohio (the Educational Service Center) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Educational Service Center's basic financial statements, and have issued our report thereon dated January 22, 2021, wherein we noted that the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Educational Service Center.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Educational Service Center's internal control over financial reporting (internal control) as a basis for designing 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 Educational Service Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Educational 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 Educational Service Center's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

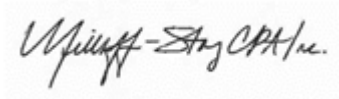
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Educational Service Center'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 Educational Service Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Millhuff-Stang, CPA, Inc.  
Portsmouth, Ohio

January 22, 2021

# OHIO AUDITOR OF STATE KEITH FABER



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

**BROWN COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 5/6/2021**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)