

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Financial Statements
and Independent Auditor's Reports**

June 30, 2016

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

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Financial Section

Independent Auditor's Report

Board of Directors
State Education Resource Center

Report on the Financial Statements

We have audited the accompanying financial statements of the State Education Resource Center, a component unit of the State of Connecticut, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State Education Resource 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 an opinion 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Education Resource Center as of June 30, 2016, and the changes in its financial position, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the pension plan schedules on pages 4 to 7 and 23 to 24, respectively, 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State Education Resource Center's basic financial statements. The supplemental schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2017, on our consideration of State Education Resource Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering State Education Resource Center's internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
February 7, 2017

Management's Discussion and Analysis Year Ended June 30, 2016

As management of the State Education Resource Center ("SERC"), we offer readers of SERC's financial statements this narrative overview and analysis of the financial activities of SERC for the fiscal year ended June 30, 2016.

Financial Highlights

- The liabilities of SERC exceeded its assets at the close of the most recent fiscal year by \$284,694.
- SERC's total net position increased by \$1,923,217. This increase is attributable to the initial organization start-up contribution provided by the Connecticut State Department of Education when SERC became a quasi-public agency as of July 1, 2015. The contribution consisted of cash and capital assets.
- As a component unit of the State of Connecticut, SERC was required by GASB Statement 68 to record their proportional share of the State Teachers' Retirement net pension liability. This was recorded as a prior period adjustment as required by GASB 68 and then adjusted for fiscal year activity. The net pension liability at year end was \$2,207,301.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to SERC's basic financial statements. SERC's basic financial statements comprise two components: 1) fund financial statements and 2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund Financial Statements. The *statement of net position* presents information on all of SERC's assets, deferred outflows, liabilities and deferred inflows, with the difference between those accounts being reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of SERC is improving or deteriorating.

The fund financial statements present current year's revenues and expenses, which are accounted for in the statement of revenues, expenses and changes in fund net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. These statements measure the success of SERC's operations over the past year and can be used to determine whether SERC has successfully recovered its costs through its user fees and other charges, profitability and credit worthiness.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the fund financial statements.

Financial Analysis

Net position may serve over time as a useful indicator of SERC's financial position. In the case of SERC, liabilities exceeded assets by \$284,694 at the close of the most recent fiscal year.

Currently, the largest portion of SERC's net position reflects its investment in capital assets (e.g., furniture, equipment, and computer equipment). SERC uses these capital assets to provide services to customers; consequently, these assets are not available for future spending. These assets were contributed to SERC by the State Department of Education when SERC become a quasi-public entity on July 1, 2015.

The remaining balance of unrestricted net position is a deficit balance in the amount of \$686,258.

| | |
|----------------------------------|---------------------|
| Current and other assets | \$ 3,748,466 |
| Capital assets (net) | <u>401,564</u> |
| Total assets | <u>4,150,030</u> |
| Deferred outflows of resources | <u>15,870</u> |
| Other liabilities | 2,228,540 |
| Noncurrent liabilities | <u>2,222,054</u> |
| Total liabilities | <u>4,450,594</u> |
| Net position: | |
| Net investment in capital assets | 401,564 |
| Unrestricted | <u>(686,258)</u> |
| Total net position | <u>\$ (284,694)</u> |

Management's Discussion and Analysis (continued)

SERC's net position increased by \$1,923,217 during the current fiscal year.

| | |
|--|---------------------|
| Revenues: | |
| Program revenues: | |
| Intergovernmental | \$ 6,962,433 |
| Charges for services | 964,553 |
| Contributions | 191,827 |
| General revenues: | |
| Interest income | 2,155 |
| Miscellaneous | <u>825</u> |
| Total revenues | <u>8,121,793</u> |
| Expenses: | |
| Salaries | 4,339,083 |
| Employee benefits | 1,281,563 |
| External contract services | 971,583 |
| In service/staff professional learning | 651,614 |
| Computer hardware and software | 171,876 |
| Occupancy | 158,090 |
| Other purchased services | 112,615 |
| Library | 80,183 |
| Foundation | 69,663 |
| Other professional technical services | 40,743 |
| Communication | 30,985 |
| Insurance | 26,943 |
| Travel | 16,998 |
| Office supplies | 5,103 |
| Other | 68,699 |
| Depreciation | <u>32,824</u> |
| Total expenses | <u>8,058,565</u> |
| Income before operating contributions | 63,228 |
| Initial organization start-up contribution | <u>1,859,989</u> |
| Change in net position | 1,923,217 |
| Net position - July 1, 2015 (as restated) | <u>(2,207,911)</u> |
| Net position - June 30, 2016 | <u>\$ (284,694)</u> |

The increase in net position is predominantly due to the initial start-up contribution by the State of Connecticut.

Revenues

Revenues totaled \$8,121,793 for fiscal year. 85.73% of SERC's revenues consist of operating grants. Since SERC's mission is related to special education, \$5,365,758 of the operating grants are from the IDEA and IDEA Preschool grants from the Connecticut State Department of Education. Charges for services are from charges to local school districts and participants and are 11.88% of revenues and contributions were 2.36%. Investment income and other comprise the remaining 0.03%.

Expenses

Expenses totaled \$8,058,565 for the fiscal year. Salaries and benefits comprised 69.75% of the total. External contract services represented 12.06%. Professional development represented 8.09% and other expenses made up the remaining 10.10% of expenses.

Capital Assets

Capital assets. SERC's investment in capital assets amounted to \$401,564 (net of accumulated depreciation). This investment in capital assets includes equipment and furniture. Computer equipment is a significant amount of the equipment category.

Capital Assets - Net

| | <u>2016</u> |
|-----------|-------------------|
| Equipment | \$ 327,291 |
| Furniture | <u>74,273</u> |
| Total | <u>\$ 401,564</u> |

The majority of the equipment reported above was contributed to SERC by the Connecticut State Department of Education. SERC had \$71,234 in computer equipment purchases during the year.

Additional information on SERC's capital assets can be found in Note II.B. of this report.

Economic Factors

SERC's operations are financially dependent of the Connecticut State Department of Education grants to fund its programs and activities. The Connecticut State Department of Education's funding accounts for 85.73% of SERC revenues. The majority of the grants are federal pass-through grants. Therefore, the availability of both federal and state funding is the most significant economic factor that can impact SERC's operations.

Requests for Information

This financial report is designed to provide a general overview of SERC's finances and to demonstrate fiscal accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, 25 Industrial Park Road, Middletown, CT 06457.

Basic Financial Statements

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Statement of Net Position
June 30, 2016**

Assets

Current assets:

| | |
|----------------------|--------------|
| Cash | \$ 3,565,589 |
| Receivables: | |
| Intergovernmental | 16,988 |
| Other | 129,574 |
| Prepaid expenses | 36,315 |
| | <hr/> |
| Total current assets | 3,748,466 |

Noncurrent assets:

Capital assets (net of accumulated depreciation):

| | |
|--|---------|
| Equipment | 327,291 |
| Furniture | 74,273 |
| | <hr/> |
| Total capital assets (net of accumulated depreciation) | 401,564 |

| | |
|--------------|-----------------------|
| Total assets | <hr/> 4,150,030 <hr/> |
|--------------|-----------------------|

Deferred Outflows of Resources

| | |
|-------------------------------------|--------------------|
| Deferred outflows - pension related | <hr/> 15,870 <hr/> |
|-------------------------------------|--------------------|

Liabilities

Current liabilities:

| | |
|--|-----------|
| Accounts payable | 237,281 |
| Accrued compensation and related liabilities | 207,103 |
| Accrued expenses | 35,883 |
| Unearned revenue | 1,704,015 |
| Compensated absences | 44,258 |
| | <hr/> |
| Total current liabilities | 2,228,540 |

Noncurrent liabilities:

| | |
|-----------------------------|-----------|
| Compensated absences | 14,753 |
| Net pension liability | 2,207,301 |
| | <hr/> |
| Total long-term liabilities | 2,222,054 |

| | |
|-------------------|-----------------------|
| Total liabilities | <hr/> 4,450,594 <hr/> |
|-------------------|-----------------------|

Net Position

| | |
|----------------------------------|--------------------|
| Net investment in capital assets | 401,564 |
| Unrestricted | (686,258) |
| | <hr/> |
| Total net position | \$ (284,694) <hr/> |

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Statement of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016**

| | |
|--|--------------|
| Operating revenues: | |
| Intergovernmental | \$ 6,962,433 |
| Charges for services | 964,553 |
| Contributions | 191,827 |
| Other | 825 |
| | <hr/> |
| Total operating revenues | 8,119,638 |
| | <hr/> |
| Operating expenses: | |
| Salaries | 4,339,083 |
| Employee benefits | 1,281,563 |
| External contract services | 971,583 |
| In service/staff professional learning | 651,614 |
| Computer hardware and software | 171,876 |
| Occupancy | 158,090 |
| Other purchased services | 112,615 |
| Library | 80,183 |
| Foundation | 69,663 |
| Other professional technical services | 40,743 |
| Communication | 30,985 |
| Insurance | 26,943 |
| Travel | 16,998 |
| Office supplies | 5,103 |
| Other | 68,699 |
| Depreciation | 32,824 |
| | <hr/> |
| Total operating expenses | 8,058,565 |
| | <hr/> |
| Operating income (loss) | 61,073 |
| Nonoperating revenues (expenses): | |
| Interest income | 2,155 |
| | <hr/> |
| Income before operating contributions | 63,228 |
| Initial organization start-up contribution | 1,859,989 |
| | <hr/> |
| Change in net position | 1,923,217 |
| Net position - July 1, 2015 (as restated) | (2,207,911) |
| | <hr/> |
| Net position - June 30, 2016 | \$ (284,694) |
| | <hr/> <hr/> |

See Notes to Financial Statements.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Statement of Cash Flows
Year Ended June 30, 2016**

| | |
|--|---------------------------|
| Operating activities: | |
| Cash receipts from Intergovernmental revenues | \$ 8,649,460 |
| Cash receipts from charges for services and other | 835,804 |
| Cash received from contributions | 191,827 |
| Payments to employees for salaries and benefits | (5,371,012) |
| Payments for external contracted services | (971,583) |
| Payments for in service/staff professional learning | (651,614) |
| Payments to suppliers | (545,049) |
| | <hr/> |
| Net cash provided by (used in) operating activities | 2,137,833 |
| Capital and related financing activities: | |
| Acquisition of capital assets | (71,234) |
| Noncapital financing activities: | |
| Initial organization start-up contribution | 1,496,835 |
| Investing activities: | |
| Interest and dividends on investments | 2,155 |
| | <hr/> |
| Net increase (decrease) in cash and cash equivalents | 3,565,589 |
| Cash - July 1, 2015 | <hr/> - |
| Cash - June 30, 2016 | <hr/> <u>\$ 3,565,589</u> |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | |
| Operating income (loss) | <hr/> \$ 61,073 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | |
| Depreciation | 32,824 |
| (Increase) decrease in: | |
| Intergovernmental receivable | (16,988) |
| Other receivable | (129,574) |
| Prepaid expenses | (36,315) |
| Deferred outflows - pension related | (15,870) |
| Increase (decrease) in: | |
| Accounts payable | 237,281 |
| Accrued compensation and related liabilities | 207,103 |
| Accrued expenses | 35,883 |
| Unearned revenue | 1,704,015 |
| Compensated absences | 59,011 |
| Net pension liability | 167,043 |
| Deferred inflows - pension related | (167,653) |
| | <hr/> |
| Total adjustments | 2,076,760 |
| | <hr/> |
| Net cash provided by (used in) operating activities | <u>\$ 2,137,833</u> |
| Noncash capital and related financing activities: | |
| Initial start-up contribution of capital assets | <u>\$ 363,154</u> |

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

History and organization

The State Education Resource Center (SERC) has been in operation since 1969 and was formally known as the Special Education Resource Center.

SERC was established as a separate quasi-public agency pursuant to Public Act 14-212 and began operating as such as of July 1, 2015. SERC is a component unit of the State of Connecticut (the State).

The purpose of SERC is to assist the State Board of Education in the provision of programs and activities that will promote educational equity and excellence. Such activities shall be limited to: training, technical assistance and professional development for local and regional boards of education, school leaders, teachers, families and community partners in the form of seminars, publications, site visits, on-line content and other appropriate means; maintaining a state education resource center library; publication of technical materials; research and evaluation; writing, managing, administering and coordinating grants for the purposes described in this subsection; and any other related activities directly related to the purposes described in this subsection. SERC also supports programs and activities concerning early childhood education, in collaboration with the Office of Early Childhood, improving school and district academic performance, and closing academic achievement gaps between socio-economic subgroups, and other related programs and activities.

I. Summary of significant accounting policies

A. Financial statements

The financial statements (i.e., the statement of net position and the statement of revenues, expenses and changes in fund net position) report information on all of SERC's activities. SERC relies to a significant extent on intergovernmental revenues, fees and contributions for support.

The financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

B. Measurement focus, basis of accounting and financial statement presentation

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of SERC are intergovernmental revenues, charges for services, and contributions. Operating expenses for SERC include the salaries and benefits, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

I. Summary of significant accounting policies (continued)

C. Measurement focus, basis of accounting and financial statement presentation

Nonoperating activity

Activities not related to SERC's primary purpose are considered nonoperating. Non-operating activities consist of interest income.

When both restricted and unrestricted resources are available for use, it is SERC's policy to use restricted resources first, then unrestricted resources as they are needed.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position and additions to/deductions from fiduciary net position of the Connecticut State Teachers' Retirement System (TRS) have been determined on the same basis as they are reported by TRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms.

D. Assets, liabilities, deferred outflows/inflows of resources and net position

1. Deposits

Deposits - SERC's cash consists of cash on hand and demand deposits.

2. Fee receivables

Fee receivables are recorded for participant fees collected within sixty days of SERC's fiscal year end.

3. Capital assets

Capital assets, which include property, plant and equipment, are reported in the financial statements. Capital assets are defined by SERC as assets with an initial, individual cost of more than \$1,000 for all assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of SERC are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|--------------------|--------------|
| Furniture | 40 years |
| Equipment | 15-25 years |
| Computer equipment | 7-10 years |

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

I. Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position (continued)

4. Deferred outflows/inflows of resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. SERC reports deferred outflows of resources related to pensions for differences between expected and actual experience and the net difference between projected and actual earnings on pension plan investments. The deferred outflows related to the differences between expected and actual experience will be amortized over the average remaining service life of all plan members. The deferred outflows for the net difference between projected and actual earnings on the pension plan investments will be amortized over a five year period.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. SERC does not report any deferred inflows.

5. Compensated absences

Employees of SERC earn sick leave, which can accumulate, and vacation leave based on the provisions of personnel policies. Vacation leave vests with the employee and is payable upon termination of employment.

6. Long-term obligations

In the financial statements, long-term obligations are reported as liabilities in the statement of net position.

7. Net position flow assumption

Sometimes SERC will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is SERC's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

I. Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position (continued)

8. Fund equity and net position

Net position is classified into the following categories:

Net Investment in Capital Assets

This category presents the net position that reflect capital assets net of only the debt applicable to the acquisition or construction of these assets. Debt issued for noncapital purposes is excluded.

Unrestricted Net Position

This category presents the net position of SERC, which is not restricted.

9. Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities including disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the fiscal year. Accordingly, actual results could differ from those estimates.

II. Detailed notes

A. Cash

Deposits - Custodial Credit Risk - Custodial credit risk is risk that, in the event of a bank failure, SERC's deposits may not be returned to it. SERC does not have a deposit policy for custodial credit risk.

As of the end of the fiscal year, \$3,147,034 of SERC's bank balance of \$3,647,034 was exposed to custodial credit risk as follows:

| | |
|---|--------------------|
| Uninsured and uncollateralized | \$2,782,331 |
| Uninsured and collateral held by the pledging bank's trust department, not in SERC's name | <u>364,703</u> |
| Total amount subject to custodial credit risk | <u>\$3,147,034</u> |

Financial instruments that potentially subject SERC to significant concentrations of credit risk consist primarily of cash. From time to time, SERC's cash account balances exceed the Federal Deposit Insurance Corporation limit. SERC reduces its credit risk by maintaining its cash deposits with major financial institutions and monitoring their credit ratings.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

II. Detailed notes (continued)

B. Capital assets

SERC's capital asset activity for the fiscal year was as follows:

| | Balance July 1, 2015 | Increases | Decreases | Balance June 30, 2016 |
|--|-------------------------|------------|-----------|--------------------------|
| <u>Capital assets, being depreciated:</u> | | | | |
| Equipment | \$ - | \$ 567,506 | \$ - | \$ 567,506 |
| Furniture | - | 114,211 | - | 114,211 |
| Total capital assets, being depreciated | - | 681,717 | - | 681,717 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Equipment | - | 240,215 | - | 240,215 |
| Furniture | - | 39,938 | - | 39,938 |
| Total accumulated depreciation | - | 280,153 | - | 280,153 |
| Total capital assets, being depreciated, net | \$ - | \$ 401,564 | \$ - | \$ 401,564 |

III. Other information

A. Risk management

SERC is exposed to various risks of loss including torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disaster; and officer and director liability. SERC generally obtains commercial insurance for these risks. Settled claims have not exceeded commercial coverage during the year. There were no significant reductions in insurance coverage from amounts held in the prior year.

B. Concentration of risk/related party transactions

Currently, over 85% of SERC funding is received from the Connecticut State Department of Education. The majority of the funding received from the Connecticut State Department of Education is for the IDEA and IDEA Preschool grants, which are federal pass-through grants.

C. Operating leases

SERC leases office space under a lease agreement that expires in January 2017. Lease expense totaled \$151,418 for the fiscal year. The minimum future rental commitments are \$89,593. SERC is in the process of renewing the lease.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

D. Annuity plan

SERC maintains a 403(b) tax sheltered annuity plan for qualified full-time employees. In general, employees are eligible to participate in the plan following the completion of 6 months of continuous service. Employees also must be at least 18 years of age and complete 1,000 hours of service per year to be eligible to participate.

E. Pension plan – Connecticut State Teachers' Retirement Plan

1. Plan description

Teachers, principals, superintendents, or supervisors engaged in service of public schools are provided with pensions through the Connecticut State Teachers' Retirement System (TRS) - a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement Board (TRB). Chapter 167a of the State Statutes grants authority to establish and amend the benefit terms to the TRB. TRS issues a publicly available financial report that can be obtained at www.ct.gov.

2. Benefit provisions

The plan provides retirement, disability and death benefits. Employees are eligible to retire at age 60 with 20 years of credited service in Connecticut, or 35 years of credited service including at least 25 years of service in Connecticut.

Normal Retirement: Retirement benefits for the employees are calculated as 2% of the average annual salary times the years of credited service (maximum benefit is 75% of average annual salary during the 3 years of highest salary).

Early Retirement: Employees are eligible after 25 years of credited service including 20 years of Connecticut service, or age 55 with 20 years of credited service including 15 years of Connecticut service. Benefit amounts are reduced by 6% per year for the first 5 years preceding normal retirement age and 4% per year for the next 5 years preceding the normal retirement age. Effective July 1, 1999, the reduction for individuals with 30 or more years of service is 3% per year by which retirement precedes the normal retirement date.

Disability Retirement: Employees are eligible for service-related disability benefits regardless of length of service. Five years of credited service is required for non service-related disability eligibility. Disability benefits are calculated as 2% of average annual salary times credited service to date of disability, but not less than 15% of average annual salary, nor more than 50% of average annual salary. In addition, disability benefits under this plan (without regard to cost-of-living adjustments) plus any initial award of social security benefits and workers' compensation cannot exceed 75% of average annual salary.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

E. Pension plan – Connecticut State Teachers' Retirement Plan (continued)

3. Contributions

State of Connecticut

Per Connecticut General Statutes Section 10-183z (which reflects Public Act 79-436 as amended), contribution requirements of active employees and the State of Connecticut are amended and certified by TRB and appropriated by the General Assembly. The contributions are actuarially determined as an amount that, when combined with employee contributions and investment earnings, is expected to finance the costs of the benefits earned by employees during the year, with any additional amount to finance any unfunded accrued liability.

Employer (School Districts)

School district employers are not required to make contributions to the plan.

Employees

Effective July 1, 1992, each teacher is required to contribute 6% of their salary for the pension benefit.

4. Pension liabilities, pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

The amounts recognized by SERC as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with SERC were as follows:

| | |
|---|---------------------|
| SERC's proportionate share of the net pension liability | \$ 2,207,301 |
| State's proportionate share of the net pension liability associated with SERC | <u>-</u> |
| Total | <u>\$ 2,207,301</u> |

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

E. Pension plan – Connecticut State Teachers' Retirement Plan (continued)

5. Actuarial assumptions

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

| | |
|---------------------------|--|
| Inflation | 3.00% |
| Salary increases | 3.75-7.00%, average, including inflation |
| Investment rate of return | 8.50%, net of pension plan investment expense, including inflation |

Mortality rates were based on the RP-2000 Combined Mortality Table projected 19 years using scale AA, with a two year setback for males and females for the period after service retirement and for dependent beneficiaries.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010.

Future cost-of-living increases - For teachers who retired prior to September 1, 1992, pension benefit adjustments are made in accordance with increases in the Consumer Price Index, with a minimum of 3% and a maximum of 5% per annum. For teachers who were members of the Teachers' Retirement System before July 1, 2007, and retired on or after September 1, 1992, pension benefit adjustments are made that are consistent with those provided for social security benefits on January 1 of the year granted, with a maximum of 6% per annum. If the return on assets in the previous year was less than 8.5%, the maximum increase is 1.5%. For teachers who were members of the Teachers' Retirement System after July 1, 2007, pension benefit adjustments are made that are consistent with those provided for social security benefits on January 1 of the year granted, with a maximum of 5% per annum. If the return on assets in the previous year was less than 11.5%, the maximum increase is 3%, and if the return on the assets in the previous year was less than 8.5%, the maximum increase is 1.0%.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

E. Pension plan – Connecticut State Teachers' Retirement Plan (continued)

5. Actuarial assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------------|----------------------|--|
| Large cap U.S. equities | 21.0% | 5.8% |
| Developed non-U.S. equities | 18.0% | 6.6% |
| Emerging markets (non-U.S.) | 9.0% | 8.3% |
| Core fixed income | 7.0% | 1.3% |
| Inflation linked bond fund | 3.0% | 1.0% |
| Emerging market bond | 5.0% | 3.7% |
| High yield bonds | 5.0% | 3.9% |
| Real estate | 7.0% | 5.1% |
| Private equity | 11.0% | 7.6% |
| Alternative investments | 8.0% | 4.1% |
| Cash | 6.0% | 0.4% |
| Total | <u>100.0%</u> | |

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

E. Pension plan – Connecticut State Teachers' Retirement Plan (continued)

6. Discount rate

The discount rate used to measure the total pension liability was 8.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected 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 benefit payments to determine the total pension liability.

7. Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 8.50% as well as what SERC's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50%) or 1-percentage-point higher (9.50%) than the current rate:

| | 1% Decrease <u>(7.50%)</u> | Current Discount <u>(8.50%)</u> | 1% Increase <u>(9.50%)</u> |
|-----------------------|----------------------------------|---------------------------------------|----------------------------------|
| Net pension liability | \$2,783,654 | \$2,207,301 | \$1,717,497 |

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

E. Pension plan – Connecticut State Teachers' Retirement Plan (continued)

8. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

SERC recognized pension expense of \$176,860. SERC reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| <u>Description of outflows/inflows</u> | <u>Deferred Outflows of Resources</u> |
|---|---|
| Net difference between projected and actual earnings on pension plan investments | <u>\$ 15,870</u> |

Actual investment earnings below (or above) projected earnings are amortized over 5 years.

Amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30,</u> | |
|---------------------------------|------------------|
| 2017 | \$ (6,804) |
| 2018 | (6,804) |
| 2019 | (6,804) |
| 2020 | <u>36,282</u> |
| Total | <u>\$ 15,870</u> |

9. Plan fiduciary net position

Detailed information about the Connecticut State Teachers' Retirement Plan fiduciary net position is available in the separately issued State of Connecticut Comprehensive Annual Financial Report as of and for the year ended June 30, 2015.

**State Education Resource Center
(A Component Unit of the State of Connecticut)**

**Notes to Financial Statements
June 30, 2016**

III. Other information (continued)

F. Prior period adjustment

Net position was restated as follows:

| | |
|--|-----------------------|
| Net position, as previously reported as of June 30, 2015 | \$ - |
| To recorded deferred inflows related to pensions | (167,653) |
| To record beginning net pension liability (NPL) | <u>(2,040,258)</u> |
| Net position, as restated as of July 1, 2015 | <u>\$ (2,207,911)</u> |

**Required
Supplementary
Information**

State Education Resource Center

Connecticut State Teachers' Retirement Plan

Required Supplementary Information
Last Two Years

Schedule of Proportionate Share of the Net Pension Liability

| | 2016 | 2015* |
|---|---------------------|---------------------|
| SERC's proportion of the net pension liability | <u>0.020118%</u> | <u>0.020118%</u> |
| SERC's proportionate share of the net pension liability | <u>\$ 2,207,301</u> | <u>\$ 2,040,258</u> |
| SERC's covered-employee payroll | <u>\$ 770,827</u> | <u>\$ 770,827</u> |
| SERC's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | <u>286.35%</u> | <u>264.68%</u> |
| Plan fiduciary net position as a percentage of the total pension liability | <u>59.50%</u> | <u>61.51%</u> |

Schedule of Contributions

| | 2016 | 2015* |
|--|-------------------|-------------------|
| Contractually required contribution | (1) \$ - | \$ - |
| Contributions in relation to the contractually required contribution | <u>-</u> | <u>-</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| SERC's covered-employee payroll | <u>\$ 770,827</u> | <u>\$ 770,827</u> |
| Contributions as a percentage of covered-employee payroll | <u>0.00%</u> | <u>0.00%</u> |

(1) SERC was not required by the State to make a contribution for fiscal year 2016.

* SERC was established as a separate entity as of July 1, 2015.

State Education Resource Center

Connecticut State Teachers' Retirement Plan

Notes to Required Supplementary Information
Last Two Years

| | |
|-------------------------------|--|
| Changes of benefit terms | None |
| Changes of assumptions | None |
| Actuarial Cost Method | Entry age |
| Amortization Method | Level percent of salary, closed |
| Remaining Amortization Period | 22.4 years |
| Asset Valuation Method | 4 year smoothed market |
| Inflation | 3.00% |
| Salary Increases | 3.75%-7.00%, average, including inflation |
| Investment Rate of Return | 8.50%, net of pension plan investment expense, including inflation |

Supplemental Schedule

State Education Resource Center
(A Component Unit of the State of Connecticut)

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016

| | IDEA | Preschool | Parent Trust | Settlement Agreement Revised | SPDG | School Climate |
|---|-------------|-----------|-----------------|------------------------------------|------------|-------------------|
| Operating revenues: | | | | | | |
| Intergovernmental | \$5,298,818 | \$ 66,940 | \$ 421,069 | \$ 72,687 | \$ 583,762 | \$ 236,771 |
| Charges for services | 133,852 | 5,017 | - | - | - | - |
| Contributions | - | - | - | - | - | - |
| Other | - | - | - | - | - | - |
| Total operating revenues | 5,432,670 | 71,957 | 421,069 | 72,687 | 583,762 | 236,771 |
| Operating expenses: | | | | | | |
| Salaries | 3,247,463 | 44,509 | 74,864 | 37,612 | 154,535 | 153,974 |
| Employee benefits | 982,747 | 7,792 | 14,467 | 9,014 | 30,784 | 31,435 |
| External contract services | 161,530 | - | 307,849 | - | 258,696 | 16,800 |
| In service/staff professional learning | 173,021 | 12,541 | - | 12,581 | 103,731 | 17,484 |
| Computer hardware and software | 220,067 | 99 | 236 | 6,204 | 477 | 2,254 |
| Occupancy | 75,000 | 538 | 598 | 257 | 1,143 | 1,963 |
| Other purchased services | 77,868 | 60 | 91 | 2,452 | 198 | 242 |
| Library | 78,608 | - | - | - | - | - |
| Administration | 328,556 | 3,696 | 21,736 | 2,150 | 22,794 | 822 |
| Foundation | - | - | - | - | - | - |
| Other professional technical services | 29,024 | 19 | 47 | 56 | 98 | 120 |
| Communication | 27,210 | 108 | 219 | 169 | 416 | 534 |
| Insurance | 20,993 | - | - | - | - | - |
| Travel | 3,849 | 2,539 | 30 | - | - | 479 |
| Office supplies | 4,097 | 11 | 39 | 42 | 66 | 85 |
| Other | 2,637 | 45 | 893 | 2,150 | 10,824 | 10,579 |
| Depreciation | - | - | - | - | - | - |
| Total operating expenses | 5,432,670 | 71,957 | 421,069 | 72,687 | 583,762 | 236,771 |
| Operating income (loss) | - | - | - | - | - | - |
| Nonoperating revenues (expenses) : | | | | | | |
| Interest income | - | - | - | - | - | - |
| Income before operating contributions and transfers | - | - | - | - | - | - |
| Initial organization start-up contribution | - | - | - | - | - | - |
| Transfers in | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - |
| Change in net position | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

(Continued)

State Education Resource Center
(A Component Unit of the State of Connecticut)

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016

| | Developing Tomorrow's Professionals | Data Summit | CELP Standards | Talent Office Comprehensive Contract | CEEDAR Institute | SRBI Symposium | Dismantling Systematic Racism |
|---|---|----------------|-------------------|---|---------------------|-------------------|-------------------------------------|
| Operating revenues: | | | | | | | |
| Intergovernmental | \$ 56,000 | \$ 23,381 | \$ 15,047 | \$ 78,610 | \$ 80,123 | \$ 23,393 | \$ 1,100 |
| Charges for services | - | - | - | - | - | - | - |
| Contributions | - | - | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total operating revenues | 56,000 | 23,381 | 15,047 | 78,610 | 80,123 | 23,393 | 1,100 |
| Operating expenses: | | | | | | | |
| Salaries | 3,176 | 3,709 | 10,608 | 38,823 | 2,834 | 8,920 | - |
| Employee benefits | 426 | 1,489 | 2,288 | 5,896 | 400 | 1,420 | - |
| External contract services | - | - | - | - | 15,800 | - | - |
| In service/staff professional learning | 39,463 | 16,877 | 1,218 | 25,061 | 54,096 | 11,580 | 1,033 |
| Computer hardware and software | 9,802 | 7 | 42 | 74 | 7 | 43 | - |
| Occupancy | - | 141 | 181 | 479 | 34 | 165 | - |
| Other purchased services | - | 68 | 17 | 49 | 1 | 1 | - |
| Library | - | - | - | - | - | - | - |
| Administration | 3,086 | - | 256 | 313 | 3,989 | 792 | - |
| Foundation | - | - | - | - | - | - | - |
| Other professional technical services | 3 | - | 10 | 20 | 2 | - | - |
| Communication | 41 | 17 | 42 | 89 | 137 | 18 | - |
| Insurance | - | - | - | - | - | - | - |
| Travel | - | - | - | 3,794 | 1,885 | - | - |
| Office supplies | 3 | 4 | - | 7 | - | - | - |
| Other | - | 1,069 | 385 | 4,005 | 938 | 454 | 67 |
| Depreciation | - | - | - | - | - | - | - |
| Total operating expenses | 56,000 | 23,381 | 15,047 | 78,610 | 80,123 | 23,393 | 1,100 |
| Operating income (loss) | - | - | - | - | - | - | - |
| Nonoperating revenues (expenses) : | | | | | | | |
| Interest income | - | - | - | - | - | - | - |
| Income before operating contributions and transfers | - | - | - | - | - | - | - |
| Initial organization start-up contribution | - | - | - | - | - | - | - |
| Transfers in | - | - | - | - | - | - | - |
| Transfers out | - | - | - | - | - | - | - |
| Change in net position | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |

(Continued)

State Education Resource Center
(A Component Unit of the State of Connecticut)

Combining Schedule of Revenues, Expenses and Changes in Fund Net Position
Year Ended June 30, 2016

| | Graustein Memorial Fund | Other State Agency | In District Contract | Other Contracts | Management and General | Grant Activity Total | Capital Asset & Pension Activity | Total |
|---|-------------------------------|--------------------------|-------------------------|--------------------|------------------------------|----------------------------|--|--------------|
| Operating revenues: | | | | | | | | |
| Intergovernmental | \$ - | \$ 4,732 | \$ - | \$ - | \$ - | \$ 6,962,433 | \$ - | \$ 6,962,433 |
| Charges for services | - | 156,830 | 622,692 | 46,162 | - | 964,553 | - | 964,553 |
| Contributions | 171,827 | - | - | 20,000 | - | 191,827 | - | 191,827 |
| Other | - | - | - | - | - | - | 825 | 825 |
| Total operating revenues | 171,827 | 161,562 | 622,692 | 66,162 | - | 8,118,813 | 825 | 8,119,638 |
| Operating expenses: | | | | | | | | |
| Salaries | - | 29,890 | 114,936 | 19,658 | 393,572 | 4,339,083 | - | 4,339,083 |
| Employee benefits | - | 8,489 | 41,452 | 2,589 | 157,355 | 1,298,043 | (16,480) | 1,281,563 |
| External contract services | 171,827 | 500 | 26,505 | 9,995 | 2,081 | 971,583 | - | 971,583 |
| In service/staff professional learning | - | 62,654 | 62,514 | 54,053 | 3,707 | 651,614 | - | 651,614 |
| Computer hardware and software | - | 190 | 831 | 33 | 2,744 | 243,110 | (71,234) | 171,876 |
| Occupancy | - | 1,147 | 5,836 | 199 | 70,409 | 158,090 | - | 158,090 |
| Other purchased services | - | 2,759 | 379 | 19 | 28,411 | 112,615 | - | 112,615 |
| Library | - | - | 184 | - | 1,391 | 80,183 | - | 80,183 |
| Administration | - | 5,501 | 19,156 | 1,850 | (414,697) | - | - | - |
| Foundation | - | - | - | - | 69,663 | 69,663 | - | 69,663 |
| Other professional technical services | - | 49 | 165 | 3 | 11,127 | 40,743 | - | 40,743 |
| Communication | - | 661 | 731 | 320 | 273 | 30,985 | - | 30,985 |
| Insurance | - | - | - | - | 5,950 | 26,943 | - | 26,943 |
| Travel | - | 669 | 1,604 | 1,981 | 168 | 16,998 | - | 16,998 |
| Office supplies | - | 42 | 141 | 2 | 564 | 5,103 | - | 5,103 |
| Other | - | 1,967 | 28,526 | 756 | 3,404 | 68,699 | - | 68,699 |
| Depreciation | - | - | - | - | 7,867 | 7,867 | 24,957 | 32,824 |
| Total operating expenses | 171,827 | 114,518 | 302,960 | 91,458 | 343,989 | 8,121,322 | (62,757) | 8,058,565 |
| Operating income (loss) | - | 47,044 | 319,732 | (25,296) | (343,989) | (2,509) | 63,582 | 61,073 |
| Nonoperating revenues (expenses) : | | | | | | | | |
| Interest income | - | - | - | - | 2,155 | 2,155 | - | 2,155 |
| Income before operating contributions and transfers | - | 47,044 | 319,732 | (25,296) | (341,834) | (354) | 63,582 | 63,228 |
| Initial organization start-up contribution | - | - | - | - | 1,859,989 | 1,859,989 | - | 1,859,989 |
| Transfers in | - | - | - | 25,296 | 183,029 | 208,325 | - | 208,325 |
| Transfers out | - | - | (208,325) | - | - | (208,325) | - | (208,325) |
| Change in net position | \$ - | \$ 47,044 | \$ 111,407 | \$ - | \$ 1,701,184 | \$ 1,859,635 | \$ 63,582 | \$ 1,923,217 |

(Concluded)