



**BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003



**Auditor of State
Betty Montgomery**

**BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Brown County Educational Service Center
Brown County
325 West State Street
Georgetown, Ohio 45121

To the Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Educational Service Center), as of and for the fiscal year ended June 30, 2003, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2003 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 24, 2003

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

As management of the Brown County Educational Service Center, we offer readers of the Brown County Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2003. We encourage readers to consider the information presented here to enhance their understanding of the Educational Service Center's financial performance.

Financial Highlights

- ‡ The assets of the Educational Service Center exceeded its liabilities at June 30, 2003, by \$1,911,033. Of this amount, \$1,824,135 may be used to meet the Educational Service Center's ongoing financial obligations.
- ‡ In total, net assets increased by \$142,253, which represents an 8 percent increase from 2002.
- ‡ General revenues accounted for \$337,769 or 12 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$2,543,052 or 88 percent of total revenues of \$2,880,821.
- ‡ The Educational Service Center had \$2,738,568 in expenses; \$2,543,052 of these expenses, were offset by program specific charges for services and operating grants and contributions.

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

The Statement of Net Assets and 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 fund with all other non-major 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 2003?"

The Statement of Net Assets and the Statements 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 year's revenues and expenses regardless of when cash is received or paid.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

These two statements report net assets and changes in those assets. This change in net assets 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 provided are reported as governmental activities. These activities include instruction, support services and non-instructional services.

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

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 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 Assets and the Statements of Activities) and governmental funds is reconciled in the financial statements.

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

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for 2003 and 2002:

(Table 1)
Net Assets

	Governmental Activities	
	2003	2002
Assets		
Current and Other Assets	\$2,237,027	\$2,019,598
Capital Assets, Net	83,900	100,554
Total Assets	2,320,927	2,120,152
Liabilities		
Long-Term Liabilities	(200,083)	(167,832)
Other Liabilities	(209,811)	(183,540)
Total Liabilities	(409,894)	(351,372)
Net Assets		
Invested in Capital Assets	83,900	100,554
Restricted	2,998	10,677
Unrestricted	1,824,135	1,657,549
Total Net Assets	\$1,911,033	\$1,768,780

Table 1 is a comparison of governmental activities as of June 30, 2003 and 2002. Total net assets increased due to a 16% increase in cash and cash equivalents. However, intergovernmental receivables did have a significant decrease of 87% by year-end.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Table 2 shows the changes in net assets for fiscal year 2003 and 2002.

(Table 2)
Changes in Net Assets

	<u>2003</u>	<u>2002</u>
Revenues		
Program Revenues:		
Charges for Services	\$1,869,181	\$1,305,756
Operating Grants and Contributions	673,871	1,064,631
General Revenues:		
Grants and Entitlements not Restricted to Specific Programs	301,265	342,085
Investment Earnings	36,504	45,935
Total Revenues	<u>2,880,821</u>	<u>2,758,407</u>
Program Expenses		
Instruction		
Regular	195,899	169,324
Special	1,020,576	786,526
Support Services		
Pupils	473,379	433,043
Instructional Staff	477,235	457,258
Board of Education	16,255	15,870
Administration	231,137	201,638
Fiscal	172,111	148,642
Operation and Maintenance of Plant	17,601	13,088
Pupil Transportation	875	1,000
Central	132,500	152,526
Operation of Non-Instructional Services	1,000	111,575
Total Expenses	<u>2,738,568</u>	<u>2,490,490</u>
Increase in Net Assets	<u>\$142,253</u>	<u>\$267,917</u>

Charges for services for the Educational Service Center increased by 43% due to additional services being provided to the various school districts within the surrounding counties. Operating grants and contributions decreased by 37% because of a decrease in state funding due to the harsh economical conditions of the time.

Instruction comprises 44% of program expenses. Support services expenses make up 56% of governmental expenses. Special education instruction for the Educational Service Center increased 30% due to additional units, including a speech unit and two additional preschool units, being added to the services already being provided by the Center.

Brown County Educational Service Center
 Management's Discussion and Analysis
 For the Fiscal Year Ended June 30, 2003
 Unaudited

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

(Table 3)

	Total Cost of Services 2003	Total Cost of Services 2002	Net Cost of Services 2003	Net Cost of Services 2002
Instruction	\$1,216,475	\$955,850	\$422,166	\$688,052
Support Services	1,521,093	1,423,065	(617,682)	(861,502)
Operation of Non-Instructional Services	1,000	111,575	0	53,347
Total Expenses	<u>\$2,738,568</u>	<u>\$2,490,490</u>	<u>(\$195,516)</u>	<u>(\$120,103)</u>

The Educational Service Center's Funds

Information about the Educational Service Center's major fund starts on page 11. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$2,927,325 and expenditures of \$2,682,005, which indicates the Educational Service Center was able to meet current costs.

The fund balance in the General Fund increased \$252,999. This change is not considered significant and is attributed to cyclical changes in revenues and expenditures.

General Fund - Budget Highlights

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The Educational Service Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
Unaudited

Capital Assets

At the end of fiscal year 2003 the Educational Service Center had \$83,900 invested in capital assets.

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

	Governmental Activities	
	2003	2002
Furniture and Equipment	<u>\$83,900</u>	<u>\$100,554</u>

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

Contacting the Educational Service Center's Financial Management

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information contact Sarah Frydryk, Treasurer, Brown County Educational Service Center, 325 West State Street, Georgetown, Ohio, 45121.

Brown County Educational Service Center

Statement of Net Assets

June 30, 2003

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,098,702
Materials and Supplies Inventory	54,773
Accounts Receivable	55,215
Intergovernmental Receivable	21,725
Prepaid Items	6,612
Depreciable Capital Assets, Net	<u>83,900</u>
<i>Total Assets</i>	<u>2,320,927</u>
Liabilities	
Accrued Wages and Benefits	163,096
Intergovernmental Payable	46,715
Long-Term Liabilities:	
Due Within One Year	39,278
Due in More Than One Year	<u>160,805</u>
<i>Total Liabilities</i>	<u>409,894</u>
Net Assets	
Invested in Capital Assets	83,900
Restricted for Other Purposes	2,998
Unrestricted	<u>1,824,135</u>
<i>Total Net Assets</i>	<u><u>\$1,911,033</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, 2003

	Program Revenues		Net(Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
<u>Governmental Activities:</u>				
Instruction:				
Regular	\$195,899	\$73,374	\$110,329	(\$12,196)
Special	1,020,576	1,007,912	447,026	434,362
Support Services:				
Pupils	473,379	68,846	30,392	(374,141)
Instructional Staff	477,235	329,559	81,249	(66,427)
Board of Education	16,255	0	0	(16,255)
Administration	231,137	157,024	0	(74,113)
Fiscal	172,111	146,824	0	(25,287)
Operation and Maintenance of Plant	17,601	0	0	(17,601)
Pupil Transportation	875	0	875	0
Central	132,500	85,642	3,000	(43,858)
Operation of Non-Instructional Services	1,000	0	1,000	0
Total Governmental Activities	\$2,738,568	\$1,869,181	\$673,871	(195,516)
General Revenues:				
Grants and Entitlements not				
Restricted to Specific Programs				301,265
Investment Earnings				36,504
Total General Revenues				337,769
Change in Net Assets				142,253
Net Assets Beginning of Year				1,768,780
Net Assets End of Year				\$1,911,033

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center

Balance Sheet
Governmental Funds
June 30, 2003

	General	All Other Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Assets			
Equity in Pooled Cash and Cash Equivalents	\$2,095,704	\$2,998	\$2,098,702
Materials and Supplies Inventory	54,773	0	54,773
Accounts Receivable	55,215	0	55,215
Intergovernmental Receivable	21,725	0	21,725
Prepaid Items	6,612	0	6,612
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$2,234,029</u>	<u>\$2,998</u>	<u>\$2,237,027</u>
Liabilities			
Accrued Wages and Benefits	\$163,096	\$0	\$163,096
Intergovernmental Payable	27,630	0	27,630
Deferred Revenue	55,215	0	55,215
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>245,941</u>	<u>0</u>	<u>245,941</u>
Fund Balances			
Reserved for Encumbrances	23	0	23
Unreserved, Reported in:			
General Fund	1,988,065	0	1,988,065
Special Revenue Funds	0	2,998	2,998
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>1,988,088</u>	<u>2,998</u>	<u>1,991,086</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$2,234,029</u>	<u>\$2,998</u>	<u>\$2,237,027</u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
 Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 June 30, 2003

Total Governmental Fund Balances \$1,991,086

Amounts reported for governmental activities in the statement of net assets 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	421,262	
Accumulated depreciation	<u>(337,362)</u>	
Total capital assets		83,900

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	55,215
-------------------	--------

Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds. (19,085)

Compensated absences are not due and payable in the current period and therefore are not reported in the funds. (200,083)

Net Assets of Governmental Activities \$1,911,033

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, 2003

	General	All Other Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Intergovernmental	\$755,491	\$233,158	\$988,649
Interest	36,504	0	36,504
Tuition and Fees	125,136	0	125,136
Gifts and Donations	940	0	940
Customer Sales and Services	1,776,096	0	1,776,096
	<u>2,694,167</u>	<u>233,158</u>	<u>2,927,325</u>
Total Revenues			
Expenditures:			
Current:			
Instruction:			
Regular	72,738	118,007	190,745
Special	1,007,595	6,313	1,013,908
Support Services:			
Pupils	437,700	30,393	468,093
Instructional Staff	381,338	81,249	462,587
Board of Education	16,255	0	16,255
Administration	212,454	0	212,454
Fiscal	165,709	0	165,709
Operation and Maintenance of Plant	18,406	0	18,406
Pupil Transportation	0	875	875
Central	128,973	3,000	131,973
Operation of Non-Instructional Services	0	1,000	1,000
	<u>2,441,168</u>	<u>240,837</u>	<u>2,682,005</u>
Total Expenditures			
Net Change in Fund Balances	252,999	(7,679)	245,320
Fund Balance at Beginning of Year	1,735,089	10,677	1,745,766
Fund Balance at End of Year	<u>\$1,988,088</u>	<u>\$2,998</u>	<u>\$1,991,086</u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
 Reconciliation of the Change in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Fiscal Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds \$245,320

*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:

Fixed asset additions	19,668	
Depreciation expense	<u>(36,322)</u>	
Excess of capital outlay under depreciation expense		(16,654)

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 deferred in the governmental funds.

Accounts	55,215	
Intergovernmental		(101,719)

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	(32,251)	
Increase in intergovernmental payable	<u>(7,658)</u>	
Total additional expenditures		<u>(39,909)</u>

Change in Net Assets of Governmental Activities \$142,253

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Intergovernmental	\$756,847	\$752,558	\$752,558	\$0
Interest	35,147	36,504	36,504	0
Tuition and Fees	131,949	125,146	125,146	0
Gifts and Donations	0	940	940	0
Customer Sales and Services	1,551,886	1,824,638	1,824,638	0
Total Revenues	2,475,829	2,739,786	2,739,786	0
Expenditures:				
Current:				
Instruction:				
Regular	0	82,055	82,055	0
Special	919,926	988,736	988,736	0
Support Services:				
Pupils	423,457	436,257	436,257	0
Instructional Staff	401,370	383,626	383,626	0
Board of Education	20,111	17,527	17,527	0
Administration	230,041	214,311	214,311	0
Fiscal	161,615	167,299	167,299	0
Operation and Maintenance of Plant	13,617	18,451	18,451	0
Central	134,476	129,627	129,575	52
Total Expenditures	2,304,613	2,437,889	2,437,837	52
Net Change in Fund Balance	171,216	301,897	301,949	52
Fund Balance at Beginning of Year	1,791,498	1,791,498	1,791,498	0
Prior Year Encumbrances Appropriated	2,234	2,234	2,234	0
Fund Balance at End of Year	\$1,964,948	\$2,095,629	\$2,095,681	\$52

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
Statement of Fiduciary Assets and Liabilities
June 30, 2003

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$598,103</u>
Total Assets	<u><u>\$598,103</u></u>
Liabilities	
Undistributed Monies	<u>\$598,103</u>
Total Liabilities	<u><u>\$598,103</u></u>

See Accompanying Notes to the Basic Financial Statements

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

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 61 certified and 33 classified staff members, and provides services to the local, exempted village, and city school districts.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to insure 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. The Educational Service Center has no component units.

The Educational Service Center participates in three organizations, one of which is defined as a jointly governed organization, one as an insurance purchasing pool, and one as a public entity shared risk and insurance purchasing pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Brown County Schools Benefits Consortium. These organizations are presented in Notes 13, 14, and 15 to the basic financial statements.

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 Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center’s accounting policies are described below.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets 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 assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities that are governmental and those that are considered business-type activities. The Educational Service Center has no business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at 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 therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the 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 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 rather than reporting by type. The major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Educational Service Center fall within two categories: governmental and fiduciary.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental funds focus on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference 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 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 Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. 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 therefore 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.

C. Measurement Focus

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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 fund 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 revenue, 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 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 thirty days of fiscal year-end.

Nonexchange 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 year when the resources are required to be used or the 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 nonexchange transactions must also be available before it can be recognized.

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

E. Budgetary Process

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

The Educational Service Center's Board adopts an annual appropriation resolution which is the Governing Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the budget submitted to the State Department of Education and the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

F. 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 Benefits Consortium and cash held in relation to the 125 plan is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." 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, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

At fiscal year-end 2003, investments were limited to STAROhio and certificates of deposits, which are reported at cost. During fiscal year 2003, the Educational Service Center also invested in Federal Home Loan Mortgage Corporation Bonds, which matured prior to year-end. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2003.

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 2003 amounted to \$36,504, which includes \$8,743 assigned from other Educational Service Center funds.

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 and Cash Equivalents."

G. Inventory

Inventories are presented at cost on a first-in, first-out basis and are expensed when used.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 year in which services are consumed.

I. Capital Assets

The only 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 assets but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation of furniture and equipment is computed using the straight-line method over five to twenty years.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. 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 ten years of current service with the Educational Service Center.

K. Accrued Liabilities and Long-term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions 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 year.

L. Fund Balance Reserves

The Educational Service Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt 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 assets are 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 assets are available.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. 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.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance.

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund.

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$252,999
Adjustments:	
Revenue Accruals	45,619
Expenditure Accruals	3,354
Encumbrances	<u>(23)</u>
Budget Basis	<u><u>\$301,949</u></u>

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies presented by the Educational Service Center into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the 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.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Inactive deposits are public deposits that the Educational Service Center 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 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, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and
8. Under limited circumstances, debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$2,196,729 and the bank balance was \$2,444,701. Of the bank balance, \$700,000 was covered by federal depository insurance and \$1,744,701 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

Investments: The Educational Service Center's investments are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name. The Educational Service Center's investments in STAROhio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
STAROhio	<u>\$500,076</u>

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
<i>GASB Statement No. 9</i>	\$2,696,805	\$0
Investments:		
STAROhio	(500,076)	500,076
<i>GASB Statement No. 3</i>	<u>\$2,196,729</u>	<u>\$500,076</u>

NOTE 5 - RECEIVABLES

Receivables at June 30, 2003, consisted of accounts and grants. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<i>Governmental Activities:</i>	
CAFS Medicare Payments	\$18,725
Martha Holden Jennings	3,000
Total	<u>\$21,725</u>

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the fiscal year-ended June 30, 2003, was as follows:

	<u>Ending Balance 6/30/2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2003</u>
Governmental Activities				
Capital Assets Being Depreciated				
Furniture and Equipment	\$401,594	\$19,668	\$0	\$421,262
Total Capital Assets, Being Depreciated	<u>401,594</u>	<u>19,668</u>	<u>0</u>	<u>421,262</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(301,040)	(36,322)	0	(337,362)
Total Accumulated Depreciation	<u>(301,040)</u>	<u>(36,322) *</u>	<u>0</u>	<u>(337,362)</u>
Depreciable Capital Assets, Net	<u>\$100,554</u>	<u>(\$16,654)</u>	<u>\$0</u>	<u>\$83,900</u>

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 6 - CAPITAL ASSETS (continued)

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$2,026
Special	2,411
Support Services:	
Pupil	3,509
Instructional Staff	9,805
Administration	10,129
Fiscal	2,486
Central	5,956
Total Depreciation Expense	<u>\$36,322</u>

NOTE 7 – STATE FUNDING

The Educational Service Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the local school districts to which the Educational Service Center provides services and by the State Department of Education. Each local school district's portion is determined by multiplying the average daily membership of the local school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that local school district's resources provided under the State's School Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the local school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed by the Educational Service Center, and if a majority of the Boards of Education of the local school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the local school districts served by the Educational Service Center through additional reductions in their resources provided through the School Foundation Program. The State Board of Education initiates and supervises the procedure under which the local school districts approve or disapprove the additional apportionment.

NOTE 8 - RISK MANAGEMENT

A. 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 2003, professional liability was provided by the Marsh USA Incorporated Insurance Company with a \$4,000,000 aggregate limit.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8 - RISK MANAGEMENT (continued)

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

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been a significant increase in coverage from last year due to a decrease in the aggregate limit the Educational Service Center maintains.

B. Workers' Compensation Group Rating Plan

For fiscal year 2003, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts 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. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice, Inc. provides administrative, cost control and actuarial services to the GRP.

C. 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 15) consisting of six districts. The Educational Service Center has elected to have Medical Mutual provide medical coverage and the dental coverage is being provided through a shared risk pool based on member district's 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 shall assume and be responsible for the payment of any delinquent contributions relating to the medical insurance and all claims related to dental of its employees from the date of termination, regardless of the date such claims were incurred.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2002, 5.46 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$57,128, \$30,638, and \$22,865, respectively; 91.86 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to the STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plan, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 20, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

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

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$167,831, \$119,626, and \$49,020, respectively; 91.77 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. Contributions to the DC and Combined Plans for fiscal year 2003 were \$179,199 made by the School District and \$119,040 made by the plan members

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2003, one of the Educational Service Center's employees has elected Social Security. The Educational Service Center's liability is 6.2 percent of wages paid.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year-ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$12,910 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year-ended June 30, 2001, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, and to disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year-ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$59,852.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year-ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Eligible classified employees earn ten to twenty days of vacation per year, depending upon length of service. Administrators earn twenty to thirty days of vacation per 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 twenty-five percent of the employees' accumulated sick leave with a maximum payment being limited to 50 days.

B. 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 Jefferson Pilot Financial Insurance Company.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 11 - EMPLOYEE BENEFITS (continued)

C. 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 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 health care reimbursement plan, 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 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 2003 were as follows:

	Principal Outstanding 6/30/02	Additions	Deductions	Amount Outstanding 6/30/03	Amount Due in One Year
<u>Governmental Activities</u>					
Compensated Absences	<u>\$167,832</u>	<u>\$75,931</u>	<u>\$43,680</u>	<u>\$200,083</u>	<u>\$39,278</u>

Compensated absences will be paid from the general fund.

NOTE 13 – JOINTLY GOVERNED ORGANIZATION

The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Jackson, Pike, Ross, Scioto, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$2,500 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

NOTE 14 – INSURANCE PURCHASING POOL

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 15 – 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 health insurance (insurance purchasing pool) and dental coverage (public entity 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) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Medical Mutual of Ohio 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 School District's claims are low, it will not receive a refund. Dental coverage is administered through a third party administrator, CoreSource. Participating member district's 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 Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 16 - STATE SCHOOL FUNDING DECISION

On December 11, 2002, the Ohio Supreme Court issues its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding decision is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 17 - CONTINGENCIES

A. 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, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.

B. Litigation

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 18 – CHANGES IN ACCOUNTING PRINCIPLES

For fiscal year 2003, the Educational Service Center has implemented GASB Statement No. 41, “Budgetary Comparison Schedules – Perspective Differences.” GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the educational service center not being able to present budgetary comparisons for the general and each major special revenue fund.

NOTE 19 – COMPLIANCE

The Educational Service Center did not certify the availability of funds for certain commitments.

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Brown County Educational Service Center
Brown County
325 West State Street
Georgetown, Ohio 45121

To the Board:

We have audited the basic financial statements of Brown County Educational Service Center, Brown County, Ohio (the Educational Service Center), as of and for the fiscal year ended June 30, 2003, and have issued our report thereon dated October 24, 2003. 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.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2003-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated October 24, 2003.

This report is intended for the information and use of the audit committee, management, the Board, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 24, 2003

**BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2003**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
--

FINDING NUMBER 2003-001

Material Noncompliance / Reportable Condition

Ohio Rev. Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. This certificate need be signed only by the subdivision's fiscal officer. Every contract made without such a certificate shall be void, and no warrant shall be issued in payment of any amount due thereon. This Section also provides for two exceptions to the above requirement:

- A. Then-and-Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Educational Service Center may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.

- B. If the amount involved is less than \$3,000 dollars (\$1,000 prior to April 7, 2003), the fiscal officer may authorize payment through a Then-and-Now Certificate without affirmation of the Board, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, the availability of funds was not properly certified for 27% of expenditures tested. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. Therefore, we recommend the Educational Service Center obtain approved purchase orders, which contain the Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

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**BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2002-10408-001	The Educational Service Center did not certify funds prior to making some expenditures as required by Rev. Code Section 5705.41(D).	No	The finding was reissued as finding No. 2003-001.



**Auditor of State
Betty Montgomery**

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BROWN COUNTY EDUCATIONAL SERVICE CENTER

BROWN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 4, 2003**