



# Balestra, Harr & Scherer, CPAs, Inc.

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

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BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2012  
Fiscal Year Audited Under GAGAS: 2012





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Brown County Educational Service Center, Brown County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

March 25, 2013

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**BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

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## Independent Auditor's Report

Members of the Board of Education  
Brown County Educational Service Center  
325 West State Street  
Georgetown, Ohio 45121

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, (the Center) as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Brown County Educational Service Center, Brown County, Ohio, as of June 30, 2012, and the respective changes in financial position 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 January 28, 2013 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 other assurance.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.

January 28, 2013



**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
Unaudited

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As management of the Brown County Educational Service Center, we offer readers of the Brown County Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2012. 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, 2012, by \$1,456,019.

In total, net assets decreased \$162,972, due to expenses exceeding revenues.

**Using the Basic Financial Statements**

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

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

**Reporting the Brown County Educational Service Center as a Whole**

One of the most important questions asked about the Educational Service Center is "How did we do financially during fiscal year 2012?" The Statement of Net Assets and the Statement of Activities, which appear first in the Educational Service Center's financial statements, report information on the Educational Service Center as a whole and its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current fiscal year's revenues and expenses regardless of when cash is received or paid.

These two statements report net 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 are reported as governmental activities. These activities include instruction and support services.

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
Unaudited

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

**Fund Financial Statements**

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

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

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

**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net assets for fiscal years 2012 and 2011:

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
Unaudited

(Table 1)  
**Net Assets**

	Governmental Activities		Change
	2012	2011	
<b>Assets</b>			
Current and Other Assets	\$2,162,219	\$2,280,645	(\$118,426)
Capital Assets, Net	32,520	36,433	(3,913)
Total Assets	<u>2,194,739</u>	<u>2,317,078</u>	<u>(122,339)</u>
<b>Liabilities</b>			
Other Liabilities	523,018	490,313	32,705
Long-Term Liabilities	207,030	207,774	(744)
Total Liabilities	<u>730,048</u>	<u>698,087</u>	<u>31,961</u>
<b>Net Assets</b>			
Invested in Capital Assets	32,520	36,433	(3,913)
Restricted	0	8,043	(8,043)
Unrestricted	1,423,499	1,574,515	(151,016)
Total Net Assets	<u>\$1,456,019</u>	<u>\$1,618,991</u>	<u>(\$162,972)</u>

Table 1 is a comparison of the composition of net assets of governmental activities as of June 30, 2012 and 2011. Total net assets decreased during the fiscal year due to several factors. Invested in Capital Assets decreased due to depreciation expense exceeding additions for the year. Restricted net assets decreased due to expending final grant dollars. Unrestricted net assets decreased due to the return of dollars to the local school districts for previous years CAFS funds, as the Educational Service Center was fiscal agent and holding these funds until released by the Federal Agencies.

Table 2 shows the changes in net assets for fiscal years 2012 and 2011.

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
Unaudited

(Table 2)  
Changes in Net Assets

	Governmental Activities		Change
	2012	2011	
<b>Revenues</b>			
<b>Program Revenues:</b>			
Charges for Services	\$3,691,723	\$3,587,326	\$104,397
Operating Grants and Contributions	898,958	819,710	79,248
Total Program Revenues	<u>4,590,681</u>	<u>4,407,036</u>	<u>183,645</u>
<b>General Revenues:</b>			
Grants and Entitlements not Restricted to Specific Programs	199,296	224,226	(24,930)
Gifts and Donations	0	245	(245)
Investment Earnings	12,007	24,832	(12,825)
Total General Revenues	<u>211,303</u>	<u>249,303</u>	<u>(38,000)</u>
Total Revenues	<u>4,801,984</u>	<u>4,656,339</u>	<u>145,645</u>
<b>Program Expenses</b>			
Instruction:			
Regular	670,978	565,469	105,509
Special	1,741,446	1,765,701	(24,255)
Adult/Continuing	7,155	10,370	(3,215)
Support Services:			
Pupils	1,219,723	1,003,844	215,879
Instructional Staff	702,990	578,787	124,203
Board of Education	29,971	44,369	(14,398)
Administration	223,021	270,067	(47,046)
Fiscal	154,490	208,059	(53,569)
Operation and Maintenance of Plant	62,456	76,944	(14,488)
Pupil Transportation	77	9,691	(9,614)
Central	152,649	165,067	(12,418)
Intergovernmental	0	46,825	(46,825)
Total Expenses	<u>4,964,956</u>	<u>4,745,193</u>	<u>219,763</u>
Change in Net Assets	<u>(162,972)</u>	<u>(88,854)</u>	<u>(\$74,118)</u>
Net Assets at Beginning of Year	<u>1,618,991</u>	<u>1,707,845</u>	
Net Assets at End of Year	<u>\$1,456,019</u>	<u>\$1,618,991</u>	

**Brown County Educational Service Center**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

Charges for services increased due to an increase in the local district's allocation of entitlement funds processed by the Educational Service Center. During the fiscal year, interest from investments decreased due to the state of the economy and available interest rates. Operating grants and contributions increased due to more grants received during the fiscal year. Support services pupils and instructional staff increased due to the replacement of support staff requiring larger salaries and increased benefits.

Health insurance benefits for all employees added to the total costs for all categories. Several of our employees chose to begin participating in the program this fiscal year which also led to increased expenses.

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

(Table 3)  
Governmental Activities

	Total Cost of Services 2012	Total Cost of Services 2011	Net Cost of Services 2012	Net Cost of Services 2011
Instruction	\$2,419,579	\$2,341,540	(\$43,752)	(\$434,781)
Support Services	2,545,377	2,356,828	418,027	772,938
Intergovernmental	0	46,825	0	0
Total Expenses	\$4,964,956	\$4,745,193	\$374,275	\$338,157

**The Educational Service Center's Funds**

Information about the Educational Service Center's major fund starts on page 11. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$4,790,876 and expenditures of \$4,961,787.

The fund balance in the General Fund decreased \$162,868. This was mainly due to the payout of severance for several retirements during the fiscal year and lower investment earnings as well as the return of dollars to the local districts for previous years CAFS funds that the Educational Service Center was holding as fiscal agent. These funds were released once authorized by the Federal Agencies.

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2012  
Unaudited

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**General Fund - Budget Highlights**

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

**Capital Assets**

At the end of fiscal year 2012 the Educational Service Center had \$32,520 invested in capital assets.

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

	<u>Governmental Activities</u>	
	<u>2012</u>	<u>2011</u>
Furniture and Equipment	<u>\$32,520</u>	<u>\$36,433</u>

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

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

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

*Brown County Educational Service Center*

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,010,530
Materials and Supplies Inventory	102,678
Accrued Interest Receivable	342
Intergovernmental Receivable	45,360
Prepaid Items	3,309
Depreciable Capital Assets, Net	<u>32,520</u>
 Total Assets	 <u>2,194,739</u>
<b>Liabilities</b>	
Accounts Payable	39,917
Accrued Wages and Benefits Payable	330,430
Intergovernmental Payable	152,671
Matured Compensated Absences Payable	8,672
Long-Term Liabilities:	
Due Within One Year	41,562
Due in More Than One Year	<u>165,468</u>
 Total Liabilities	 <u>738,720</u>
<b>Net Assets</b>	
Invested in Capital Assets	32,520
Unrestricted	<u>1,423,499</u>
 Total Net Assets	 <u><u>\$1,456,019</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, 2012

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction:				
Regular	\$670,978	\$528,236	\$120,000	(\$22,742)
Special	1,741,446	1,278,795	536,300	73,649
Adult/Continuing	7,155	0	0	(7,155)
Support Services:				
Pupils	1,219,723	1,181,750	0	(37,973)
Instructional Staff	702,990	162,670	231,570	(308,750)
Board of Education	29,971	0	0	(29,971)
Administration	223,021	226,693	0	3,672
Fiscal	154,490	111,097	11,088	(32,305)
Operation and Maintenance of Plant	62,456	60,908	0	(1,548)
Pupil Transportation	77	77	0	0
Central	152,649	141,497	0	(11,152)
<b>Total Governmental Activities</b>	<b>\$4,964,956</b>	<b>\$3,691,723</b>	<b>\$898,958</b>	<b>(374,275)</b>
<b>General Revenues</b>				
				Grants and Entitlements not Restricted to Specific Programs
				199,296
				Investment Earnings
				12,007
				Total General Revenues
				211,303
				Change in Net Assets
				(162,972)
				Net Assets at Beginning of Year
				1,618,991
				Net Assets at End of Year
				\$1,456,019

See Accompanying Notes to the Basic Financial Statements



*Brown County Educational Service Center*

Balance Sheet  
Governmental Funds  
June 30, 2012

	<u>General</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,010,530
Materials and Supplies Inventory	102,678
Accrued Interest Receivable	342
Intergovernmental Receivable	45,360
Prepaid Items	<u>3,309</u>
Total Assets	<u><u>\$2,162,219</u></u>
<b>Liabilities</b>	
Accounts Payable	\$39,917
Accrued Wages and Benefits Payable	330,430
Intergovernmental Payable	152,671
Matured Compensated Absences Payable	8,672
Deferred Revenue	<u>11,358</u>
Total Liabilities	<u>543,048</u>
<b>Fund Balance</b>	
Nonspendable	105,987
Committed	16,000
Assigned	15,421
Unassigned	<u>1,481,763</u>
Total Fund Balance	<u>1,619,171</u>
Total Liabilities and Fund Balance	<u><u>\$2,162,219</u></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, 2012

**Total Governmental Fund Balances** \$1,619,171

*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	393,160	
Accumulated depreciation	(360,640)	
Total capital assets		32,520

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		11,358
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Compensated absences are not due and payable in the current period and therefore are not reported in the funds.

(207,030)
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**Net Assets of Governmental Activities**

\$1,456,019
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See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2012

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>			
Intergovernmental	\$719,601	\$378,653	\$1,098,254
Interest	12,007	0	12,007
Tuition and Fees	120,476	0	120,476
Customer Sales and Services	3,558,939	1,200	3,560,139
	<u>4,411,023</u>	<u>379,853</u>	<u>4,790,876</u>
<b>Expenditures</b>			
Current:			
Instruction:			
Regular	550,165	120,813	670,978
Special	1,715,834	15,995	1,731,829
Adult/Continuing	0	7,155	7,155
Support Services:			
Pupils	1,222,086	0	1,222,086
Instructional Staff	477,784	231,570	709,354
Board of Education	29,971	0	29,971
Administration	228,593	0	228,593
Fiscal	139,298	11,088	150,386
Operation and Maintenance of Plant	62,456	0	62,456
Pupil Transportation	77	0	77
Central	147,627	1,275	148,902
	<u>4,573,891</u>	<u>387,896</u>	<u>4,961,787</u>
Net Changes in Fund Balances	(162,868)	(8,043)	(170,911)
Fund Balances at Beginning of Year	<u>1,782,039</u>	<u>8,043</u>	<u>1,790,082</u>
Fund Balances at End of Year	<u>\$1,619,171</u>	<u>\$0</u>	<u>\$1,619,171</u>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in  
 Fund Balances of Governmental Funds to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2012

**Net Change in Fund Balances - Total Governmental Funds** (\$170,911)

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

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

Capital asset additions	6,878	
Depreciation expense	<u>(10,791)</u>	
Excess of capital outlay under depreciation expense		(3,913)

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. Deferred revenues changed by these amounts:

Intergovernmental	11,108
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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:

Decrease in compensated absences	<u>744</u>
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**Change in Net Assets of Governmental Activities** (\$162,972)

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Fiduciary Assets and Liabilities  
June 30, 2012

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	<u>\$1,482,673</u>
Total Assets	<u><u>\$1,482,673</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>\$1,482,673</u>
Total Liabilities	<u><u>\$1,482,673</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, 2012

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**NOTE 1 – DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY**

The Brown County Educational Service Center (the “Educational Service Center”) operates under a Governing Board as defined by Section 3313.01 of the Ohio Revised Code. The Brown County Governing Board was chartered to operate by the State Board of Education on June 10, 1968. The Governing Board consists of five members elected at large for staggered four year terms. The Educational Service Center is an administrative entity providing supervision and certain other services to local school districts located in Brown County. The Educational Service Center employs 43 certified and 58 classified staff members, and provides services to the local and exempted village school districts.

Reporting Entity

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization’s governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization’s resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt, or the levying of taxes. 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 a public entity shared risk and insurance purchasing pool and one as an insurance purchasing pool. These organizations are the South Central Ohio Computer Association, the Brown County Schools Benefits Consortium and the Ohio Association of School Business Officials Workers’ Compensation Group Rating Plan. These organizations are presented in Notes 13, 14, and 15 to the basic financial statements.

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**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.

**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 usually distinguish between those activities of the Educational Service Center that are governmental in nature and those that are considered business-type activities. The Educational Service Center, however, has no business-type activities.

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Fund Financial Statements

During the fiscal year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**B. Fund Accounting**

The Educational Service Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Educational Service Center functions or activities. 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.

Governmental Funds

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

The following is the Educational Service Center's major governmental fund:

General Fund – The General Fund is the operating fund of the Educational Service Center and is used to account for 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.



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Fiduciary Funds

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 (e.g., revenues) and decreases (e.g., 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.

**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 funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Revenues – Exchange and Non-exchange Transactions

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

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

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

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 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.

Expenses/Expenditures

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

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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**

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

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

During fiscal year 2012, investments were limited to certificates of deposit, reported at cost, and the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer’s Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio’s net asset value per share, which is the price the investment could be sold for on June 30, 2012.

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 2012 amounted to \$12,007, which includes \$5,330 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 equivalents.

**G. Inventory**

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

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the fiscal year in which services are consumed.

**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 which is determined by indexing the current replacement cost back to the year of acquisition), and are updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of \$500. The Educational Service Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

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 20 years.

**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 10 years of current service with the Educational Service Center.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

On the governmental fund financial statements, compensated absences are reported as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account “Matured Compensated Absences Payable” in the funds from which the employees are paid.

**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 that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current fiscal year.

**L. Fund Balance**

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

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

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

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Assigned** - Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Governing Board.

**Unassigned** - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

**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.

**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.

**O. Internal Activity**

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



***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

**P. Flow-Through Grants**

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the local and exempted village school districts. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures/expenses. For fiscal year 2012, the Educational Service Center had no flow through grants.

**NOTE 3 – DEPOSITS AND INVESTMENTS**

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

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

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

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

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

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 3 - DEPOSITS AND INVESTMENTS** (continued)

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

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

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the Educational Service Center's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105% if the total value of public monies on deposit at the institution. The Educational Service Center's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2012, the carrying amount of the Educational Service Center's cash deposits was \$3,490,860. The bank balance of \$3,742,288 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 3 – DEPOSITS AND INVESTMENTS** (continued)

Investments

As of June 30, 2012, the Educational Service Center only had investments in STAROhio.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$2,343	Average 53 days

Interest Rate Risk

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

Credit Risk

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

Concentration of Credit Risk

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

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2012, consisted of interest and amounts due from other school districts. All receivables are considered collectible in full and will be received within one year. The Educational Service Center had the following intergovernmental receivable:

<u>Governmental Activities:</u>	<u>Amount</u>
Excess Costs	<u>\$45,360</u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

**NOTE 5 – CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2012, was as follows:

	Ending Balance <u>6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>6/30/2012</u>
<u>Governmental Activities:</u>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$386,282	\$6,878	\$0	\$393,160
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(349,849)</u>	<u>(10,791) *</u>	<u>0</u>	<u>(360,640)</u>
Depreciable Capital Assets, Net	<u>\$36,433</u>	<u>(\$3,913)</u>	<u>\$0</u>	<u>\$32,520</u>

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

Instruction:	
Special	\$253
Support Services:	
Pupils	4,750
Instructional Staff	2,115
Administration	284
Fiscal	1,194
Central	2,195
Total Depreciation Expense	<u>\$10,791</u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 6 – STATE AND LOCAL SCHOOL DISTRICT FUNDING**

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

The Educational Service Center also receives funding from the State Department of Education in the amount of \$33.04 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 7 – 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 2012, professional liability was provided by the Ohio Casualty Insurance Company with a \$5,000,000 aggregate limit.

The Ohio Casualty Group Insurance Company maintains a \$20,000 public official bond for the Treasurer. A \$25,000 blanket bond for other employees is also maintained by the Ohio Casualty Group Insurance Company.

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

**B. Workers' Compensation Group Rating Plan**

For fiscal year 2012, the Educational Service Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participants is calculated as one experience and a common premium rate is applied to all participants in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Participation in the GRP is limited to participants that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 8 – DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2012, the allocation to pension and death benefits was 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Medicare B and Health Care funds. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$123,072, \$135,690 and \$114,213, respectively. For fiscal year 2012, 87.62 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 8 – DEFINED BENEFIT PENSION PLANS** (continued)

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. Benefits are established by Ohio Revised Code Chapter 3307.

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

Funding Policy - Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon the recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$247,854, \$247,579 and \$268,909, respectively. 89.43 percent has been contributed for fiscal year 2012, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

Contributions made to STRS Ohio for the DC Plan and for fiscal year 2012 were \$15,817 made by the Educational Service Center and \$11,298 made by the plan members. In addition, member contributions of \$4,185 were made for fiscal year 2012 for the defined contribution portion of the Combined Plan.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 8 – DEFINED BENEFIT PENSION PLANS** (continued)

**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 of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2012, one member of the Board of Education elected Social Security. The contribution rate is 6.2 percent of wages.

**NOTE 9 – POST-EMPLOYMENT BENEFITS**

**A. School Employees Retirement System**

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

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For fiscal year 2012, 0.55 percent of covered payroll was allocated to health care. In addition, employers pay a surcharge for employees earning less than an actuarially determined amount; for fiscal year 2012, this amount was \$35,800. During fiscal year 2012, the Educational Service Center paid \$15,166 in surcharge.

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

The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$30,520, \$32,048, and \$24,794, respectively. For fiscal year 2012, 87.62 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 9 – POST-EMPLOYMENT BENEFITS** (continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Educational Service Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010, were \$7,920, \$8,732, and \$6,792 respectively. For fiscal year 2012, 87.62 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

**B. State Teachers Retirement System of Ohio**

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2012, 2011, and 2010 were \$19,066, \$19,045, and \$20,685 respectively. For fiscal year 2012, 89.43 percent has been contributed, with the balance being reported as an intergovernmental payable. The full amount has been contributed for fiscal years 2011 and 2010.

**NOTE 10 – 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 10 to 30 days of vacation per fiscal year, depending upon length of service. Administrators earn 20 to 30 days of vacation per fiscal year, depending upon length of service. Teachers do not earn vacation time. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment.



**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 10 – EMPLOYEE BENEFITS** (continued)

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

**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 Lincoln National Life Insurance Company.

**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 fiscal year. Any monies not used by the end of the plan year are forfeited to the General Fund. Employees may elect to have plan benefit dollars applied to a 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 11 – LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2012 were as follows:

	Principal Outstanding 6/30/11	Additions	Deductions	Amount Outstanding 6/30/12	Amount Due in One Year
<u>Governmental Activities:</u>					
Compensated Absences	<u>\$207,774</u>	<u>\$47,192</u>	<u>\$47,936</u>	<u>\$207,030</u>	<u>\$41,562</u>

Compensated absences will be paid from the General Fund.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 12 - FUND BALANCES**

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

<u>Fund Balances</u>	<u>General</u>
<i><b>Nonspendable</b></i>	
Inventory	\$102,678
Prepays	3,309
<i>Total Nonspendable</i>	<u>105,987</u>
<i><b>Committed to</b></i>	
Other Purposes	<u>16,000</u>
<i><b>Assigned to</b></i>	
Unpaid Obligations	<u>15,421</u>
<i>Unassigned</i>	<u>1,481,763</u>
<i>Total Fund Balances</i>	<u><u>\$1,619,171</u></u>

**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, Pickaway, Gallia 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 \$17,546 for services provided during the fiscal 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.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 14 – PUBLIC ENTITY SHARED RISK AND INSURANCE PURCHASING POOL**

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

**NOTE 15 – INSURANCE PURCHASING POOL**

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

**NOTE 16 – LEASES – LESSEE DISCLOSURE**

The Educational Service Center leases building space under non-cancelable operating leases. Operating lease payments are reported as function expenditures in the General Fund. Total operating lease payments in fiscal year 2012 were \$52,645. The total operating lease payments due in fiscal year 2013 are \$52,065.

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2012

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**NOTE 17 – CONTINGENCIES**

**A. Grants**

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

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. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2012, if applicable, cannot be determined at this time.

**B. Litigation**

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



## Balestra, Harr & Scherer, CPAs, Inc.

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

[www.bhscpas.com](http://www.bhscpas.com)

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

Members of the Board of Education  
Brown County Educational Service Center  
325 West State Street  
Georgetown, Ohio 45121

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Center), as of and for the year ended June 30, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated January 28, 2013. 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 the Comptroller General of the United States' *Government Auditing Standards*.

#### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. *A material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Members of the Board of Education  
Brown County Educational Service Center  
Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Required by *Government Auditing Standards*  
Page 2

### **Compliance and Other Matters**

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

We intend this report solely for the information and use of management, the Board of Education, and others within the Center. We intend it for no one other than these specified parties.

*Balestra, Harr & Scherer, CPAs*

Balestra, Harr & Scherer, CPAs, Inc.  
January 28, 2013



# Dave Yost • Auditor of State

**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  
APRIL 4, 2013**