



**BROWN COUNTY EDUCATIONAL SERVICE CENTER
BROWN COUNTY**

REGULAR AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
General-Purpose Financial Statements:	
Combined Balance Sheet - All Fund Types and Account Groups	4
Combined Statements of Revenues, Expenditures, and Changes In Fund Balances - All Governmental Fund Types	6
Combined Statement of Revenues, Expenditures, and Changes In Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types	8
Notes to the General-Purpose Financial Statements	11
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	33

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the Governing Board:

We have audited the accompanying general-purpose financial statements of the Brown County Educational Service Center, Brown County, Ohio (the Educational Service Center) as of and for the fiscal year ended June 30, 1999 as listed in the table of contents. These general-purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Brown County Educational Service Center, Brown County, Ohio, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

As more fully described in Note 20 to the general-purpose financial statements, the Brown County Alternative School was included as a blended component unit in the Educational Service Center's financial statements for the fiscal year ended June 30, 1998. As of July 1, 1998, the Alternative School has changed its fiscal agent to the Eastern Local School District in Brown County.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2000 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.

Jim Petro
Auditor of State

January 28, 2000

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**Brown County Educational Service Center
 Combined Balance Sheet
 All Fund Types and Account Groups
 June 30, 1999**

	Governmental Fund Types	
	General	Special Revenue
Equity in Pooled Cash and Cash Equivalents	\$1,224,184	\$51,124
Cash and Cash Equivalents in Segregated Accounts	0	0
Receivables:		
Intergovernmental	56,315	0
Prepaid Items	3,627	0
Materials and Supplies Inventory	41,717	0
Fixed Assets	0	0
<u>Other Debits:</u>		
Amount to be Provided for Retirement of General Long-Term Obligations	0	0
Total Assets and Other Debits	\$1,325,843	\$51,124
 <u>Liabilities,</u>		
<u>Fund Equity and Other Credits:</u>		
<u>Liabilities:</u>		
Accrued Wages and Benefits	\$134,352	\$630
Compensated Absences Payable	14,840	0
Intergovernmental Payable	156,202	540
Deferred Revenue	16,447	0
Undistributed Monies	0	0
Total Liabilities	321,841	1,170
 <u>Fund Equity and Other Credits:</u>		
Investment in General Fixed Assets	0	0
Fund Balance:		
Reserved for Inventory	41,717	0
Unreserved:		
Undesignated	962,285	49,954
Total Fund Equity and Other Credits	1,004,002	49,954
 Total Liabilities, Fund Equity and Other Credits	\$1,325,843	\$51,124

The notes to financial statements are an integral part of this statements.

Account Groups		Totals
General Fixed Assets	General Long-Term Obligations	(Memorandum Only)
\$0	\$0	\$1,275,308
0	0	248,412
0	0	56,315
0	0	3,627
0	0	41,717
347,818	0	347,818
0	138,208	138,208
<u>\$347,818</u>	<u>\$138,208</u>	<u>\$2,111,405</u>

\$0	\$0	\$134,982
0	125,674	140,514
0	12,534	169,276
0	0	16,447
0	0	248,412
<u>0</u>	<u>138,208</u>	<u>709,631</u>

347,818	0	347,818
0	0	41,717
0	0	1,012,239
<u>347,818</u>	<u>0</u>	<u>1,401,774</u>

<u>\$347,818</u>	<u>\$138,208</u>	<u>\$2,111,405</u>
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***Brown County Educational Service Center
Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999***

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	
<u>Revenues:</u>			
Intergovernmental	\$946,118	\$390,958	\$1,337,076
Interest	65,085	0	65,085
Tuition and Fees	100,387	0	100,387
Gifts and Donations	9,730	0	9,730
Customer Services	840,780	0	840,780
Total Revenues	<u>1,962,100</u>	<u>390,958</u>	<u>2,353,058</u>
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	9,044	161,203	170,247
Special	808,193	13,689	821,882
Vocational	50,613	0	50,613
Support Services:			
Pupils	184,254	35,275	219,529
Instructional Staff	327,939	62,192	390,131
Board of Education	15,016	0	15,016
Administration	170,349	8,447	178,796
Fiscal	105,194	9,141	114,335
Operation and Maintenance of Plant	9,217	0	9,217
Central	95,747	78,250	173,997
Total Expenditures	<u>1,775,566</u>	<u>368,197</u>	<u>2,143,763</u>
Excess of Revenues Over Expenditures	186,534	22,761	209,295
Fund Balances at Beginning of Year	848,057	27,193	875,250
Decrease in Reserve for Inventory	<u>(30,589)</u>	<u>0</u>	<u>(30,589)</u>
Fund Balances at End of Year	<u><u>\$1,004,002</u></u>	<u><u>\$49,954</u></u>	<u><u>\$1,053,956</u></u>

The notes to the financial statements are an integral part of this statement.

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***Brown County Educational Service Center
 Combined Statement of Revenues, Expenditures and
 Changes in Fund Balances - Budget and Actual (Budget Basis)
 All Governmental Fund Types
 For the Fiscal Year Ended June 30, 1999***

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$1,242,908	\$1,495,129	\$252,221
Interest	61,000	65,085	4,085
Tuition and Fees	325,026	141,777	(183,249)
Gifts and Donations	8,856	9,730	874
Customer Services	257,890	283,810	25,920
 Total Revenues	 1,895,680	 1,995,531	 99,851
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	13,444	10,311	3,133
Special	853,376	837,783	15,593
Vocational	52,188	49,225	2,963
Support Services:			
Pupils	223,948	215,563	8,385
Instructional Staff	338,326	320,473	17,853
Board of Education	19,914	15,127	4,787
Administration	192,516	174,416	18,100
Fiscal	116,413	103,702	12,711
Operation and Maintenance of Plant	11,700	9,198	2,502
Central	106,792	95,570	11,222
 Total Expenditures	 1,928,617	 1,831,368	 97,249
 Excess of Revenues Over (Under) Expenditures	 (32,937)	 164,163	 197,100
 Fund Balances at Beginning of Year	 1,060,021	 1,060,021	 0
 Fund Balances (Deficit) at End of Year	 \$1,027,084	 \$1,224,184	 \$197,100

(Continued)

The notes to the financial statements are an integral part of this statement.

***Brown County Educational Service Center
Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 1999
(Continued)***

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$390,958	\$390,958	\$0
Interest	0	0	0
Tuition and Fees	0	0	0
Gifts and Donations	0	0	0
Customer Services	0	0	0
Total Revenues	390,958	390,958	0
<u>Expenditures:</u>			
Current:			
Instruction:			
Regular	182,659	160,742	21,917
Special	13,689	13,689	0
Vocational	0	0	0
Support Services:			
Pupils	51,379	35,668	15,711
Instructional Staff	64,893	62,192	2,701
Board of Education	0	0	0
Administration	8,447	8,447	0
Fiscal	16,265	9,140	7,125
Operation and Maintenance of Plant	0	0	0
Central	100,566	79,182	21,384
Total Expenditures	437,898	369,060	68,838
Excess of Revenues Over (Under) Expenditures	(46,940)	21,898	68,838
Fund Balances at Beginning of Year	29,226	29,226	0
Fund Balances (Deficit) at End of Year	(\$17,714)	\$51,124	\$68,838

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Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

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 Board is an administrative entity providing supervision and certain other services to local school districts located in Brown County.

The Educational Service Center employs 49 certified and 29 classified staff members, and is responsible for the public education to residents of the County. The average daily membership (ADM) as of June 30, 1999 was 7,281.

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 is associated with four organizations which are defined as a jointly-governed organization, a public entity shared risk pool, an insurance purchasing pool, and a related organization. These organizations are the South Central Ohio Computer Association (SCOCA), the Brown County Schools Benefits Consortium, the Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Southern Hills Joint Vocational School District. These organizations are presented in Notes 12, 13, 14, and 15 to the general-purpose financial statements.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

The Educational Service Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net expendable available resources.

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. The acquisition, use and balances of the Educational Service Center's expendable financial resources and the related current liabilities are accounted for through governmental funds. The following are the Educational Service Center's governmental fund types:

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.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Fund Type:

Fiduciary funds are used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Educational Service Center's only fiduciary funds are agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group - This account group is established to account for all fixed assets of the Educational Service Center.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of the Educational Service Center.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Educational Service Center is thirty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, only intergovernmental receivables related to excess costs are deemed both measurable and available.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Educational Service Center reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet the measurable and available criteria for recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Contracts with Brown County Schools measurable as of June 30, 1999, and which are intended to finance fiscal year 2000 operations, have been recorded as deferred revenue.

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. The costs of accumulated unpaid vacation and sick leave are reported as fund liabilities in the period in which they will be liquidated with available financial resources rather than in the period earned by employees. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

C. Budgetary Process

The budgetary process is prescribed by provisions of section 3317.11 of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable.

The Educational Service Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Board of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

Appropriations:

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center.

The Educational Service Center may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds. There were no outstanding encumbrances at year end.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center (and not held as fiscal agent for the Brown County Benefits Consortium) is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through Educational Service Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. Cash received and held as fiscal agent for the Brown County Schools Benefits Consortium is held in separate bank accounts and is presented as "Cash and Cash Equivalents in Segregated Accounts" on the balance sheet. During fiscal year 1999, the Educational Service Center's investments were limited to funds invested in the State Treasury Assets Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 1999. Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 1999 amounted to \$65,085, which includes \$7,126 assigned from other Educational Service Center funds.

For presentation on the combined balance sheet, investments of the cash management pool, the Benefits Consortium, and investments with a maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

E. Inventory

Inventories of governmental funds are stated at cost. Cost is determined on a first-in, first out basis. Inventory in governmental funds consists of expendable supplies held for consumption. The cost on inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available expendable resources even though it is a component of net current assets.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure is reported in the year in which services are consumed.

G. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed 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.

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. Improvements are capitalized over the remaining useful lives of the related fixed assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

The Educational Service Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Early Childhood Education
Public School Preschool
Education Health Act - Preschool Grant
Eisenhower Math and Science Grant
Preventative Health and Health Services Block Grant
Drug Free School Grant
School Health Education
EHA Preschool Grant for the Handicapped
Education Management Information Systems

Grants and entitlements amounted to approximately 56.8 percent of the Educational Service Center's revenue during the 1999 fiscal year.

I. 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. Sick leave benefits are accrued as a liability using the vesting method. The liability is based on the sick leave accumulated at June 30 by those employees who are eligible to receive termination payments and by those employees for whom it is probable will become eligible to receive termination benefits in the future. The amount is based on accumulated sick leave and employee wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. The Educational Service Center records a liability for accumulated unused sick leave for classified employees after 12 years of service with the Educational Service Center and for certified employees and administrators after 15 years of service. The current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

J. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation for expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for inventories of supplies and materials.

M. 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 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Undistributed Monies

These funds represent undistributed monies held by the Educational Service Center as fiscal agent for the Brown County Schools Benefits Consortium which will be distributed to third parties upon their request.

O. Total Columns on General-Purpose Financial Statements

Total columns on the general-purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balances 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 Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) - All Governmental Fund Types, 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).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (continued)

	Excess of Revenues Over Expenditures All Governmental Fund Types	
	GENERAL FUND	SPECIAL REVENUE FUNDS
GAAP BASIS	\$186,534	\$22,761
Adjustments:		
Revenue Accruals	33,431	0
Expenditure Accruals	(55,802)	(863)
Budget Basis	\$164,163	\$21,898

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held 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.

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

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation, 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.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

State statute permits interim monies to 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 the 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. Bonds 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) section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

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".

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Deposits: At fiscal year-end, the carrying amount of the Educational Service Center's deposits was \$37,733 and the bank balance was \$247,113. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining amounts were 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 for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes insured 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 investment in STAR Ohio is unclassified because it is not evidenced by securities that exist in physical or book entry form.

	Fair Value
STAR Ohio	\$1,485,987

NOTE 5 - RECEIVABLES

Receivables at June 30, 1999 consisted of intergovernmental amounts. All receivables are considered collectible in full. A summary of the principal items of intergovernmental receivables follows:

General Fund:	
Intergovernmental	
Excess Cost	\$56,315

NOTE 6 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 1999 follows:

Asset Category	Balance at June 30, 1998	Additions	Deletions	Balance at June 30, 1999
Furniture & Equipment	\$318,095	\$35,395	\$5,672	\$347,818

NOTE 7 - RISK MANAGEMENT

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 1999, the Educational Service Center's property insurance was provided by the Brown County Commissioners, as they are responsible for the Educational Service Center's property insurance. Professional liability is also protected by the Nationwide Mutual Insurance Company with a \$5,000,000 aggregate limit.

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

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

For fiscal year 1999, 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 Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The Educational Service Center participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk pool (Note 13) consisting of seven districts that provides health insurance coverage to enrolled members and eligible dependents. 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 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 and all claims of its employees from the date of termination, regardless of the date such claims were incurred.

NOTE 8 - 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 public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll. For fiscal year 1999, 9.79 percent was the portion to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by SERS' Retirement Board. The Brown County Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$46,649, \$47,063, and \$37,871, respectively; 92 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$3,924 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$116,184, \$150,514, and \$140,752, respectively. No contributions have been made for fiscal year 1999. 100 percent has been contributed for fiscal years 1998 and 1997. \$116,184 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

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 have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, 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 9 - 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 funded on a pay-as-you-go basis.

The State Teachers Retirement 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 Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. Through June 30, 1997, the board allocated employer contributions equal to two percent of covered payroll to the Health Care Reserve Fund. Beginning July 1, 1997, this allocation was increased to 3.5 percent. For the Educational Service Center, this amount equaled \$38,728 during the 1999 fiscal year.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$1,860 million at June 30, 1997. For the fiscal year ended June 30, 1997, net health care costs paid by STRS were \$192,077,000 and STRS had 88,718 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, 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.

NOTE 9 - POSTEMPLOYMENT BENEFITS (Continued)

For this fiscal year, employer contributions to fund health care benefits were 4.21 percent of covered payroll. 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 1999, the minimum pay has been established at \$12,400. 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 125 percent of annual health care expenses. Expenses for health care at June 30, 1998 were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998 SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, equaled \$32,595 during the 1999 fiscal year.

NOTE 10 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are set by the Governing Board and State laws. Eligible classified employees and administrators earn ten to thirty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

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 employee's accumulated sick leave with a maximum payment being limited to 50 days.

B. Life Insurance

The Educational Service Center provides term life insurance and accidental death and dismemberment insurance to all of its full time employees through Coresource.

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.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 11 - LONG-TERM DEBT

The changes in long-term obligations for the Educational Service Center as of June 30, 1999, were as follows:

	Balance 6/30/98	Additions	Deductions	Balance 6/30/99
Compensated Absences	\$141,976	\$0	\$16,302	\$125,674
Pension Obligation	13,000	12,534	13,000	12,534
	\$154,976	\$12,534	\$29,302	\$138,208

Compensated absences and the pension obligation will be paid from the fund from which the person is paid.

NOTE 12 - JOINTLY-GOVERNED ORGANIZATION

South Cental Ohio Computer Association (SCOCA)

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, Pike, Ross, Scioto, 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 of the seven participating counties, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$3,607 for service provided during the fiscal year. Financial information can be obtained from the fiscal agent, the Pike County Joint Vocational School, P.O. Box 577, 175 Beaver Creek Rd., Piketon, Ohio, 45661.

NOTE 13 -PUBLIC ENTITY SHARED RISK POOL

Brown County Schools Benefits Consortium

The Brown County Schools Benefits Consortium, a public entity shared risk pool, currently operates to provide health insurance coverage to enrolled employees of the consortium members and to eligible dependents of those enrolled employees. Six Brown County school districts (Eastern Brown, Fayetteville, Georgetown, Ripley Union Lewis Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Board of Education to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health insurance for the benefit of the consortium members' employees and their dependents, to obtain lower costs for health coverage, and to secure cost control by implementing a program of comprehensive loss control.

NOTE 13 -PUBLIC ENTITY SHARED RISK POOL (Continued)

Brown County Schools Benefits Consortium (Continued)

The Consortium's business and affairs are managed by a Board of Directors consisting of one representative from each participating school. The District pays premiums based on what the consortium estimates will cover the costs of all claims for which the consortium is obligated. If the District's claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the District's claims are low, it will not receive a refund. The consortium views its activities in the aggregate, rather than on an individual entity basis. To obtain financial information write to the Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

NOTE 14 - INSURANCE PURCHASING POOL

Ohio School Boards Association Workers' Compensation Group Rating Plan

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.

NOTE 15 - RELATED ORGANIZATION

Southern Hills Joint Vocational School District

The Educational Service Center's board members by law serve as board members of the Southern Hills Joint Vocational School District, along with one member appointed by Bright Local School District, and one member appointed by the Georgetown Exempted Village School District. According to the Guide to Implementation of GASB Statement No. 14 on the Financial Reporting Entity, appointment "includes primary government officials serving as required by law, and thus, technically not 'appointed'". Therefore, a voting majority is appointed by the Educational Service Center. However, the Educational Service Center has no further accountability for the Southern Hills Joint Vocational School District.

NOTE 16 - 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, 1999.

B. Litigation:

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

NOTE 17 - SCHOOL FUNDING

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$946,118 of school foundation support for its general fund.

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the Athorough and efficient clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of the date of this report, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the Educational Service Center is unable to determine what effect, if any, this decision will have on its future State funding under this program and on its financial operations.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 18 - YEAR 2000

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations.

The Brown County Educational Service Center has completed an inventory of computer systems and other electronic equipment that may be affected by the year 2000 issue and that are necessary to conducting the Educational Service Center's operations and has identified such systems as being financial reporting, payroll and employee benefits, and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The Educational Service Center uses the State of Ohio Uniform School Accounting System software for its financial reporting, and the State of Ohio Uniform Staff Payroll System software for its payroll and employee benefits. The State is responsible for remediating these systems.

The State of Ohio distributes a substantial sum of money to the Educational Service Center in the form of "Foundation" and federal and State grant payments. Further, the State processes a significant amount of financial and non-financial information about the Educational Service Center through EMIS. The State is responsible for remediating these systems.

To the best of management's knowledge and belief, as of January 28, 2000, the Educational Service Center experienced no significant interruption of mission critical operations or services related to the year 2000 issue. However, because of the unprecedented nature of the year 2000 issue, matters may yet arise, and parties with whom the Educational Service Center does business may experience year 2000 readiness issues that, as yet, are unknown.

NOTE 19 - 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 both State and local resources.

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school districts' portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school districts' resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of average daily memberships of all the school districts served by the Education Service Center by \$32. This amount is provided from State resources.

Brown County Educational Service Center
Notes to the General-Purpose Financial Statements
For the Fiscal Year Ended June 30, 1999

NOTE 19 - STATE FUNDING (Continued)

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the 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 school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 20 - CHANGE IN REPORTING ENTITY

The financial statements for the fiscal year ended June 30, 1998, included the Brown County Alternative School as a blended component unit (Special Revenue Fund). On June 8, 1998, the Eastern Local School District in Brown County adopted a resolution to serve as fiscal agent for the Alternative School beginning July 1, 1998. As of June 30, 1998, no assets, liabilities, or fund balance remained in the Alternative School Special Revenue Fund included in the Brown Educational Service Center's financial statements. For the fiscal year ended June 30, 1998, revenues and expenditures for the Alternative School amounted to approximately 25% of the total Special Revenue Fund revenues and expenditures and approximately 4% of the total revenues and expenditures for all funds of the Brown Educational Service Center.

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**REPORT OF INDEPENDENT ACCOUNTANTS 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 Governing Board:

We have audited the accompanying financial statements of the Brown County Educational Service Center, Brown County, Ohio (the Educational Service Center), as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated January 28, 2000, which describes that the Brown County Alternative School was included as a blended component unit in the Educational Service Center's financial statements and the Alternative School has changed its fiscal agent to the Eastern Local School District in Brown County. We conducted our audit in accordance with generally accepted auditing standards 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 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 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated January 28, 2000.

Brown County Educational Service Center
Brown County
Report of Independent Accountants on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

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

Jim Petro
Auditor of State

January 28, 2000



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OFFICE OF THE AUDITOR

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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
MARCH 7, 2000**