



**BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY**

**REGULAR AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2002**



**JIM PETRO**  
**AUDITOR OF STATE**  

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**STATE OF OHIO**



**BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY**

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STATE OF OHIO  
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**REPORT OF INDEPENDENT ACCOUNTANTS**

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

To the Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio (the Service Center), as of and for the fiscal year ended June 30, 2002, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio, as of June 30, 2002, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2002, the Service Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2002 on our consideration of the Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long, horizontal flourish extending to the right.

**Jim Petro**  
Auditor of State

December 9, 2002

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2002  
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 year ended June 30, 2002. 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, 2002 by \$1,768,780. Of this amount, \$1,657,549 may be used to meet the Educational Service Center's ongoing financial obligations.
- ‡ In total, net assets increased by \$267,917, which represents an 18 percent increase from 2001.
- ‡ General revenues accounted for \$388,020 or 14 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$2,370,387 or 86 percent of total revenues of \$2,758,407.
- ‡ The Educational Service Center had \$2,490,490 in expenses; \$2,370,387 of these expenses, were offset by program specific charges for services and operating grants and contributions.

**Using the Basic Financial Statements**

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

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

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

One of the most important questions asked about the Educational Service Center is "How did we do financially during 2002?"

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

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2002  
Unaudited

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

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

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

#### **Fund Financial Statements**

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

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

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

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2002  
Unaudited

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**The Educational Service Center as a Whole**

Table 1 provides a summary of the Educational Service Center's net assets for 2002 and 2001:

(Table 1)  
**Net Assets**

	Governmental Activities	
	2002	2001
Assets		
Current and Other Assets	\$2,019,598	\$1,747,783
Capital Assets, Net	100,554	94,172
Total Assets	2,120,152	1,841,955
Liabilities		
Long-Term Liabilities	(167,832)	(159,198)
Other Liabilities	(183,540)	(181,894)
Total Liabilities	(351,372)	(341,092)
Net Assets		
Invested in Capital Assets	100,554	94,172
Restricted	10,677	62,824
Unrestricted	1,657,549	1,343,867
Total Net Assets	\$1,768,780	\$1,500,863

Table 1 is a comparison of governmental activities as of June 30, 2002 and 2001. Total net assets increased due to a 12% increase in cash and cash equivalents and a 129% increase in intergovernmental receivables.

Table 2 shows the changes in net assets for fiscal year 2002. Since this is the first year the Educational Service Center has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to fiscal year 2001 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

**Brown County Educational Service Center**  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2002  
Unaudited

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(Table 2)  
Change in Net Assets

	2002
Revenues	
Program Revenues:	
Charges for Services	\$1,305,756
Operating Grants and Contributions	1,064,631
General Revenues:	
Grants and Entitlements not Restricted to Specific Programs	342,085
Investment Earnings	45,935
Total Revenues	2,758,407
 Program Expenses	
Instruction	
Regular	169,324
Special	786,526
Support Services	
Pupils	433,043
Instructional Staff	457,258
Board of Education	15,870
Administration	201,638
Fiscal	148,642
Operation and Maintenance of Plant	13,088
Pupil Transportation	1,000
Central	152,526
Operation of Non-Instructional Services	111,575
Total Expenses	2,490,490
Increase in Net Assets	\$267,917

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. Comparisons to 2001 have not been made since they are not available.

**Brown County Educational Service Center**  
 Management's Discussion and Analysis  
 For the Fiscal Year Ended June 30, 2002  
 Unaudited

(Table 3)

	<u>Total Cost of Services 2002</u>	<u>Net Cost of Services 2002</u>
Instruction	\$955,850	\$688,052
Support Services	1,423,065	(861,502)
Operation of Non-Instructional Services	<u>111,575</u>	<u>53,347</u>
Total Expenses	<u><u>\$2,490,490</u></u>	<u><u>(\$120,103)</u></u>

**The Educational Service Center's Funds**

Information about the Educational Service Center's major fund starts on page 11. The Educational Service Center's funds are accounted for using the modified accrual basis of accounting. All funds had total revenues of \$2,720,671 and expenditures of \$2,488,511, which indicates the Educational Service Center was able to meet current costs.

The fund balance in the General Fund increased \$246,169. This change is not considered significant and is attributed to cyclical changes in revenues and expenditures.

**General Fund - Budget Highlights**

The Educational Service Center's budget is prepared according to the requirements of the State Department of Education, and is based on cash receipts, disbursements and encumbrances. The Educational Service Center's most significant budgeted fund is the General Fund. The General Fund is budgeted at the fund level. The final budget varied from the original budget as intergovernmental revenues were larger than originally anticipated and overall expenditures were less than originally anticipated. The ending unobligated cash balance was \$121,009 above the final budgeted amount for the General Fund. This was largely due to actual expenditures being less than the amounts budgeted.

**Capital Assets**

At the end of fiscal year 2002 the Educational Service Center had \$100,554 invested in capital assets.

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

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
Furniture and Equipment	<u><u>\$100,554</u></u>	<u><u>\$94,172</u></u>

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

***Brown County Educational Service Center***  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2002  
Unaudited

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

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional information contact 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, 2002

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$1,805,009
Materials and Supplies Inventory	40,730
Intergovernmental Receivable	169,063
Prepaid Items	4,796
Depreciable Capital Assets, Net	<u>100,554</u>
<i>Total Assets</i>	<u>2,120,152</u>
<b>Liabilities</b>	
Accounts Payable	2,489
Accrued Wages and Benefits	142,450
Intergovernmental Payable	38,601
Long-Term Liabilities:	
Due Within One Year	39,865
Due in More Than One Year	<u>127,967</u>
<i>Total Liabilities</i>	<u>351,372</u>
<b>Net Assets</b>	
Invested in Capital Assets	100,554
Restricted for Other Purposes	10,677
Unrestricted	<u>1,657,549</u>
<i>Total Net Assets</i>	<u><u>\$1,768,780</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, 2002

	Program Revenues		Net(Expense) Revenue and Changes in Net Assets	
Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
<b><u>Governmental Activities:</u></b>				
Instruction:				
Regular	\$169,324	\$115,497	\$110,337	\$56,510
Special	786,526	1,025,429	392,639	631,542
Support Services:				
Pupils	433,043	29,803	31,655	(371,585)
Instructional Staff	457,258	12,467	361,178	(83,613)
Board of Education	15,870	0	0	(15,870)
Administration	201,638	0	0	(201,638)
Fiscal	148,642	32,922	0	(115,720)
Operation and Maintenance of Plant	13,088	0	0	(13,088)
Pupil Transportation	1,000	0	900	(100)
Central	152,526	89,638	3,000	(59,888)
Operation of Non-Instructional Services	111,575	0	164,922	53,347
Total Governmental Activities	\$2,490,490	\$1,305,756	\$1,064,631	(120,103)
General Revenues:				
Grants and Entitlements not				
Restricted to Specific Programs				342,085
Investment Earnings				45,935
Total General Revenues				388,020
Change in Net Assets				267,917
Net Assets Beginning of Year - (See Note 3)				1,500,863
Net Assets End of Year				\$1,768,780

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**

Balance Sheet  
Governmental Funds  
June 30, 2002

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$1,793,732	\$11,277	\$1,805,009
Materials and Supplies Inventory	40,730	0	40,730
Intergovernmental Receivable	169,063	0	169,063
Prepaid Items	4,796	0	4,796
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$2,008,321</u>	<u>\$11,277</u>	<u>\$2,019,598</u>
<b>Liabilities</b>			
Accounts Payable	\$1,889	\$600	\$2,489
Accrued Wages and Benefits	142,450	0	142,450
Intergovernmental Payable	27,174	0	27,174
Deferred Revenue	101,719	0	101,719
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>273,232</u>	<u>600</u>	<u>273,832</u>
<b>Fund Balances</b>			
Reserved for Encumbrances	2,234	0	2,234
Unreserved, Reported in:			
General Fund	1,732,855	0	1,732,855
Special Revenue Funds	0	10,677	10,677
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balances	<u>1,735,089</u>	<u>10,677</u>	<u>1,745,766</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities and Fund Balances	<u>\$2,008,321</u>	<u>\$11,277</u>	<u>\$2,019,598</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, 2002

**Total Governmental Fund Balances** \$1,745,766

*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	401,594	
Accumulated depreciation	(301,040)	
Total capital assets	<u>100,554</u>	100,554

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	101,719
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Intergovernmental payable includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.	(11,427)
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Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(167,832)</u>
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<b>Net Assets of Governmental Activities</b>	<u><u>\$1,768,780</u></u>
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See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Fiscal Year Ended June 30, 2002

	General	All Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>			
Intergovernmental	\$1,154,957	\$286,228	\$1,441,185
Interest	45,935	0	45,935
Tuition and Fees	74,497	0	74,497
Gifts and Donations	15,061	0	15,061
Customer Sales and Services	1,143,993	0	1,143,993
<b>Total Revenues</b>	<b>2,434,443</b>	<b>286,228</b>	<b>2,720,671</b>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	38,535	128,497	167,032
Special	764,917	12,570	777,487
Support Services:			
Pupils	393,475	32,213	425,688
Instructional Staff	360,166	96,544	456,710
Board of Education	15,870	0	15,870
Administration	214,730	0	214,730
Fiscal	143,125	5,515	148,640
Operation and Maintenance of Plant	13,043	0	13,043
Pupil Transportation		1,000	1,000
Central	134,738	21,998	156,736
Operation of Non-Instructional Services	109,675	1,900	111,575
<b>Total Expenditures</b>	<b>2,188,274</b>	<b>300,237</b>	<b>2,488,511</b>
Net Change in Fund Balances	246,169	(14,009)	232,160
Fund Balance at Beginning of Year (Restated - See Note 3)	1,488,920	24,686	1,513,606
Fund Balance at End of Year	<u>\$1,735,089</u>	<u>\$10,677</u>	<u>\$1,745,766</u>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
 Reconciliation of the Change in Fund Balances of Governmental Funds  
 to the Statement of Activities  
 For the Fiscal Year Ended June 30, 2002

**Net Change in Fund Balances - Total Governmental Funds** \$232,160

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

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

Fixed asset additions	46,416	
Depreciation expense	<u>(38,240)</u>	
Excess of capital outlay over depreciation expense		8,176

The cost of the capital assets are removed from the capital asset account in the statement of net assets and offset against the proceeds from sale of fixed assets resulting in a loss on sale of fixed assets in the statement of activities. (1,794)

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.

Intergovernmental		37,736
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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:

Increase in compensated absences	(8,634)	
Decrease in intergovernmental payable	<u>273</u>	
Total additional expenditures		<u>(8,361)</u>

**Change in Net Assets of Governmental Activities** \$267,917

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Revenues, Expenditures and Changes  
In Fund Balance - Budget (Non-GAAP Basis) and Actual  
General Fund  
For the Fiscal Year Ended June 30, 2002

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Intergovernmental	\$894,264	\$1,141,051	\$1,138,051	(\$3,000)
Interest	100,805	154,805	45,935	(108,870)
Tuition and Fees	73,088	85,659	74,487	(11,172)
Gifts and Donations	15,107	17,036	15,061	(1,975)
Customer Sales and Services	1,001,946	1,124,833	1,103,582	(21,251)
<b>Total Revenues</b>	<b>2,085,210</b>	<b>2,523,384</b>	<b>2,377,116</b>	<b>(146,268)</b>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	18,000	18,000	17,502	498
Special	900,169	863,642	788,206	75,434
Vocational	26,000	25,000	0	25,000
Support Services:				
Pupils	366,868	433,219	378,968	54,251
Instructional Staff	425,928	391,772	364,036	27,736
Board of Education	14,825	25,751	18,266	7,485
Administration	204,600	233,213	216,403	16,810
Fiscal	164,850	156,858	142,651	14,207
Operation and Maintenance of Plant	20,500	14,500	12,379	2,121
Central	139,113	162,007	136,424	25,583
Operation of Non-Instructional Services	330,137	128,332	110,180	18,152
<b>Total Expenditures</b>	<b>2,610,990</b>	<b>2,452,294</b>	<b>2,185,015</b>	<b>267,277</b>
Net Change in Fund Balance	(525,780)	71,090	192,101	121,009
Fund Balance at Beginning of Year	1,471,299	1,471,299	1,471,299	0
Prior Year Encumbrances Appropriated	128,098	128,098	128,098	0
<b>Fund Balance at End of Year</b>	<b>\$1,073,617</b>	<b>\$1,670,487</b>	<b>\$1,791,498</b>	<b>\$121,009</b>

See Accompanying Notes to the Basic Financial Statements

**Brown County Educational Service Center**  
Statement of Fiduciary Assets and Liabilities  
June 30, 2002

	<u>Agency</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$11,427
Cash and Cash Equivalents in Segregated Accounts	<u>433,743</u>
Total Assets	<u><u>\$445,170</u></u>
<b>Liabilities</b>	
Undistributed Monies	<u>445,170</u>
Total Liabilities	<u><u>\$445,170</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, 2002

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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 56 certified and 41 classified staff members, and provides services to the local, exempted village, and city school districts.

**Reporting Entity**

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

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

The Educational Service Center participates in three organizations, one of which is defined as a jointly governed organization, one as an insurance purchasing pool, and one as a public entity risk pool. These organizations are the South Central Ohio Computer Association (SCOCA), the Ohio School Boards Association Workers’ Compensation Group Rating Plan, and the Brown County Schools Benefits Consortium. These organizations are presented in Notes 14, 15, and 16 to the general purpose financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

**A. Basis of Presentation**

The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-wide Financial Statements**

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the Educational Service Center at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support 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 a governmental function is self-financing or draws from the general revenues of the Educational Service Center.

**Fund Financial Statements**

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

**B. Fund Accounting**

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

Governmental Funds

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

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

General Fund - The general fund is the operating fund of the Educational Service Center and is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the Educational Service Center for any purpose provided it is expended or transferred according to the general laws of Ohio.

The other governmental funds of the Educational Service Center account for grants and other resources of the Educational Service Center whose use is restricted to a particular purpose.

Fiduciary Fund

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds and agency funds. Trust funds are used to account for assets held by the Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the School District's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center's only fiduciary funds are agency funds. The agency funds account for activities related to the 125 Plan and the Brown County Schools Benefits Consortium.

**C. Measurement Focus**

Government-wide Financial Statements

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

Fund Financial Statements

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

**D. Basis of Accounting**

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

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

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

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

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

**Deferred Revenue**

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

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

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

Expenses/Expenditures

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

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

**E. Budgetary Process**

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

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

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

**F. Cash and Cash Equivalents**

To improve cash management, all cash received by the Educational Service Center except cash held as fiscal agent for the Brown County Benefits Consortium is pooled in a central bank account. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." Cash received and held as fiscal agent for the Brown County Schools Benefits Consortium is held in separate bank accounts and is presented as "Cash and Cash Equivalents in Segregated Accounts."

During fiscal year 2002, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but 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, 2002.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

Following Ohio statutes, the Governing Board has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue is credited to the general fund during fiscal year 2002 amounted to \$45,935, which includes \$12,564 assigned from other Educational Service Center funds,

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

**G. Inventory**

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

**H. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is recorded in the year in which services are consumed.

**I. Capital Assets**

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

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

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

**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.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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

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

**K. Accrued Liabilities and Long-term Obligations**

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment in the current year.

**L. Fund Balance Reserves**

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**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.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 3 – CHANGE IN REPORTING ENTITY/CHANGES IN ACCOUNTING PRINCIPLES**

**A. Change in Reporting Entity and Restatement of Fund Equity**

In the prior fiscal year, the Educational Service Center’s reporting entity included the Southern Hills Joint Vocational School as a blended component unit. Prior to fiscal year 2002, the Educational Service Center appointed a voting majority of the Joint Vocational School District’s Board. Due to this change in the Board’s appointing authority, the Educational Service Center had a change in its reporting entity per GASB Statement No. 14, which now excludes the Southern Hills Joint Vocational School as a blended component unit for fiscal year 2002. The change in reporting had the following effect on fund balances/retained earnings as they were previously reported as of June 30, 2001.

<u>Fund Type</u>	<u>Fund Balance/ Retained Earnings June 30, 2001</u>	<u>Adjustments</u>	<u>Restated Fund Balance/ Retained Earnings June 30, 2001</u>
Governmental Funds:			
Special Revenue	2,037,197	(2,013,511)	23,686
Capital Projects	1,077,967	(1,076,967)	1,000
Proprietary Funds:			
Enterprise	710,137	(710,137)	0
Fiduciary Funds:			
Expendable Trust	4,808	(4,808)	0

**B. Changes in Accounting Principles**

For fiscal year 2002, the Educational Service Center has implemented *GASB Statement No. 34, “Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments,”* *GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus,”* *GASB Statement No. 38, “Certain Financial Statement Note Disclosures,”* and *“GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.* At June 30, 2001, there was no effect on fund balance as a result of implementing these new pronouncements.

*GASB Statement No. 34* creates new basic financial statements for reporting on the Educational Service Center’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 3 – CHANGE IN REPORTING ENTITY/CHANGES IN ACCOUNTING PRINCIPLES**  
**(Continued)**

The government-wide financial statements split programs between governmental and business-type activities. The Educational Service Center has no business-type activities. The beginning net asset amount for governmental activities reflects the following changes in fund balance for governmental funds at June 30, 2001, caused by the conversion to the accrual basis of accounting.

	<u>General</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2001	<u>\$1,488,920</u>	<u>\$24,686</u>	\$1,513,606
GASB No. 34 Adjustments:			
Deferred Assets:			
Intergovernmental Receivables			63,983
Capital Assets			94,172
Intergovernmental Payable			(11,700)
Long-Term Liabilities:			
Compensated Absences			<u>(159,198)</u>
Governmental Activities Net Assets, June 30, 2001			<u>\$1,500,863</u>

**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING**

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

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

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING** (continued)

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

<u>Net Change in Fund Balance</u>	
GAAP Basis	\$246,169
Adjustments:	
Revenue Accruals	(57,327)
Expenditure Accruals	5,493
Encumbrances	<u>(2,234)</u>
Budget Basis	<u><u>\$192,101</u></u>

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

Protection of the Educational Service Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

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

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

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.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

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

**Deposits:** At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$109,685 and the bank balance was \$306,372. Of the bank balance, \$100,000 was covered by federal depository insurance and \$206,372 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the Educational Service Center's name and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the Federal Deposit Insurance Corporation.

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

	<u>Fair Value</u>
STAR Ohio	<u>\$2,140,494</u>

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

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

	<u>Cash and Cash Equivalents/Deposits</u>	<u>Investments</u>
<i>GASB Statement No. 9</i>	\$2,250,179	\$0
Investments:		
STAR Ohio	(2,140,494)	2,140,494
<i>GASB Statement No. 3</i>	<u>\$109,685</u>	<u>\$2,140,494</u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2002, consisted of grants. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<i>Governmental Activities:</i>	
General Fund	<u><u>\$169,063</u></u>

**NOTE 7 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2002, was as follows:

	<u>Ending Balance 6/30/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance 6/30/2002</u>
Governmental Activities				
Capital Assets Being Depreciated				
Furniture and Equipment	<u>378,376</u>	<u>46,416</u>	<u>(23,198)</u>	<u>401,594</u>
Total Capital Assets, Being Depreciated	<u>378,376</u>	<u>46,416</u>	<u>(23,198)</u>	<u>401,594</u>
Less Accumulated Depreciation:				
Furniture and Equipment	<u>(284,204)</u>	<u>(38,240)</u>	<u>21,404</u>	<u>(301,040)</u>
Total Accumulated Depreciation	<u>(284,204)</u>	<u>(38,240) *</u>	<u>21,404</u>	<u>(301,040)</u>
Depreciable Capital Assets, Net	<u><u>\$94,172</u></u>	<u><u>\$8,176</u></u>	<u><u>(\$1,794)</u></u>	<u><u>\$100,554</u></u>

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

Instruction:	
Regular	\$4,778
Special	3,947
Support Services:	
Pupil	3,543
Instructional Staff	10,365
Administration	8,931
Fiscal	1,797
Central	4,879
Total Depreciation Expense	<u><u>\$38,240</u></u>

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 8 – STATE FUNDING**

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

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

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

**NOTE 9 - 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 2002, professional liability was provided by the Marsh USA Incorporated 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.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 9 - RISK MANAGEMENT** (continued)

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

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association 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 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.

**C. Employee Medical Benefits**

The Educational Service Center participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity risk pool (Note 16) consisting of seven districts. 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.

**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$30,638, \$22,865, and \$27,197, respectively; 93.32 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$2,048 represents the unpaid contribution for fiscal year 2002.

**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. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone 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 43215-3371.

For the fiscal year ended June 30, 2002, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations 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, 2002, 2001, and 2000 were \$119,626, \$49,020, and \$73,385, respectively; 91.67 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. \$9,970 represents the unpaid contribution for fiscal year 2002.

**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, 2002, 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 11 - POSTEMPLOYMENT BENEFITS**

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

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 11 - POSTEMPLOYMENT BENEFITS** (Continued)

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$56,665 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll, a decrease of 1.26 percent from fiscal year 2001. 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 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$59,347.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTE 12 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. There is no limit as to the accumulation of the number of sick days. Upon retirement, payment is made for twenty-five percent of the employees' accumulated sick leave with a maximum payment being limited to 50 days.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

**NOTE 12 - EMPLOYEE BENEFITS** (continued)

**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 a private carrier.

**C. 125 Plan**

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

**NOTE 13 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center’s long-term obligations during the fiscal year 2002 were as follows:

	Amount Outstanding 6/30/01	Additions	Deductions	Amount Outstanding 6/30/02	Amount Due in One Year
<u>Governmental Activities</u>					
Compensated Absences	\$159,198	\$55,716	\$47,082	\$167,832	\$39,865

Compensated absences will be paid from the general fund.

**NOTE 14 – JOINTLY GOVERNED ORGANIZATION**

**A. South Central Ohio Computer Association**

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

***BROWN COUNTY EDUCATIONAL SERVICE CENTER***

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 15 – INSURANCE PURCHASING POOL**

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

**NOTE 16 – PUBLIC ENTITY RISK POOL**

Six Brown County school districts (Eastern, Fayetteville-Perry, Georgetown, Ripley-Union-Lewis-Huntington, Southern Hills Joint Vocational and Western Brown Schools) have entered into an agreement with the Brown County Educational Service Center to form the Brown County Schools Benefits Consortium. The overall objectives of the consortium are to formulate and administer a program of health and dental insurance for the benefit of the consortium members' employees and their dependents. The consortium contracts with Medical Mutual of Ohio to provide fully funded medical insurance directly to consortium member employees. The School District pays premiums to the consortium based on employee membership. For dental insurance, the consortium is self-insured. The School District pays dental premiums based on consortium estimates of future claims. If the School District's dental claims exceed its premiums, there is no individual supplemental assessment; on the other hand, if the School District's claims are low, it will not receive a refund. To obtain financial information write to Brown County Educational Service Center at 325 West State St., Georgetown, Ohio 45121.

**NOTE 17 - STATE SCHOOL FUNDING DECISION**

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

**BROWN COUNTY EDUCATIONAL SERVICE CENTER**

Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2002

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**NOTE 17 - STATE SCHOOL FUNDING DECISION** (Continued)

The State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001. In November, 2001, the Court granted the request for reconsideration, but also ordered the parties to participate in a settlement conference with a court appointed mediator. On March 21, 2002, the mediator issued his final report indicating that the conference was unable to produce a settlement. The case is now under reconsideration by the Court.

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

**NOTE 18 - 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, 2002.

**B. Litigation**

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

**NOTE 19 – COMPLIANCE**

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



**STATE OF OHIO  
OFFICE OF THE AUDITOR**

**JIM PETRO, AUDITOR OF STATE**

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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 Board:

We have audited the basic financial statements of Brown County Educational Service Center, Brown County, Ohio (the Service Center), as of and for the fiscal year ended June 30, 2002, and have issued our report thereon dated December 9, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Service Center's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-10408-001. We also noted an immaterial instance of noncompliance that we have reported to management of the Service Center in a separate letter dated December 9, 2002.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the basic financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10408-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

A handwritten signature in black ink, appearing to read "Jim Petro", written in a cursive style.

**Jim Petro**  
Auditor of State

December 9, 2002

**BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2002**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2002-10408-001**

**Material Noncompliance / Reportable Condition**

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

- A. Then-and-Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the Service Center may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate.
  
- B. If the amount involved is less than \$1,000 dollars, the fiscal officer may authorize payment through a Then-and-Now Certificate without affirmation of the Board, if such expenditure is otherwise valid.

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

Contrary to the above requirement, the availability of funds was not properly certified for 20% of expenditures tested. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash balances. Therefore, we recommend the Service Center obtain approved purchase orders, which contain the Treasurer's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

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**BROWN COUNTY EDUCATIONAL SERVICE CENTER  
BROWN COUNTY  
JUNE 30, 2002**

**SCHEDULE OF PRIOR AUDIT FINDINGS**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <b><i>Explain:</i></b>
2001-10408-001	The Service Center did not certify funds prior to making some expenditures as required by Rev. Code, Section 5705.41(D).	No	The finding was reissued as finding No. 2002-10408-001.





STATE OF OHIO  
OFFICE OF THE AUDITOR  

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JIM PETRO, AUDITOR OF STATE

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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  
JANUARY 2, 2003**