

Brown County Educational Service Center

Brown County, Ohio

July 1, 2004 Through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

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Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Brown County Educational Service Center, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

March 9, 2007

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Brown County Educational Service Center
Brown County, Ohio

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Member American Institute of Certified Public Accountants

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown County Educational Service Center, Brown County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, as of June 30, 2005, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Brown County Educational Service Center
Independent Auditor's Report
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As described in Note 3, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposits and Investments Risk Disclosure", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation", and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees."

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
December 14, 2006

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

As management of the Brown County Educational Service Center, we offer readers of the Brown County Educational Service Center's basic financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2005. 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, 2005, by \$1,772,471.

In total, net assets decreased by \$54,823 due to an increase in accrued liabilities relating to wages and benefits and a reduction in the amount of receivables outstanding at year-end.

General revenues accounted for \$387,124 or 12 percent of all revenues. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$2,954,978 or 88 percent of total revenues of \$3,342,102.

The Educational Service Center had \$3,396,925 in expenses; \$2,954,978 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 the Statement of Activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's major 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 2005?"

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

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

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

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

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

Fund Financial Statements

Fund financial reports provide detailed information about the Educational Service Center's major 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 Fund - The Educational Service Center's only fiduciary funds are agency funds. 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, 2005
Unaudited

The Educational Service Center as a Whole

Table 1 provides a summary of the Educational Service Center's net assets for 2005 and 2004:

(Table 1)
Net Assets

	Governmental Activities	
	2005	2004
Assets		
Current and Other Assets	\$2,189,507	\$2,227,717
Capital Assets, Net	105,928	78,525
Total Assets	2,295,435	2,306,242
Liabilities		
Long-Term Liabilities	252,733	(191,913)
Other Liabilities	270,231	(287,035)
Total Liabilities	522,964	(478,948)
Net Assets		
Invested in Capital Assets	105,928	78,525
Restricted	3,000	2,851
Unrestricted	1,663,543	1,745,918
Total Net Assets	\$1,772,471	\$1,827,294

Table 1 is a comparison of the composition of net assets of governmental activities as of June 30, 2005 and 2004. Total net assets decreased during the year due to several factors. Unrestricted net assets decreased due to the increasing cost of doing business. This included increased rent charges and also increases in employee wages and benefits. New capital assets of \$60,471 were enough to cover the amount of depreciation recognized during the year of \$33,068, thereby resulting in an increase to capital assets. Long-term liabilities increased due to the hiring of additional staff and the liability related to their vacation and sick leave accruals.

Table 2 shows the changes in net assets for fiscal year 2005 and 2004.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

(Table 2)
Changes in Net Assets

	2005	2004
Revenues		
Program Revenues:		
Charges for Services	\$2,296,214	\$2,197,080
Operating Grants and Contributions	658,764	652,644
General Revenues:		
Grants and Entitlements not		
Restricted to Specific Programs	343,907	318,659
Investment Earnings	43,217	29,163
Miscellaneous	0	3,000
Total Revenues	3,342,102	3,200,546
 Program Expenses		
Instruction:		
Regular	394,347	531,395
Special	1,064,839	1,031,681
Support Services:		
Pupils	675,898	568,227
Instructional Staff	629,244	423,574
Board of Education	27,226	23,399
Administration	224,655	287,552
Fiscal	175,588	178,474
Operation and Maintenance of Plant	25,835	31,320
Pupil Transportation	0	1,500
Central	179,293	207,163
Total Expenses	3,396,925	3,284,285
Increase (Decrease) in Net Assets	(\$54,823)	(\$83,739)

Charges for services for the Educational Service Center increased due to several key factors. The instructional staff formed a school improvement support team. This team provided regional workshops for the client districts who paid to attend the workshops. The charges for the workshop were then used to provide dollars for the instructional staff to attend conferences and workshops to further their professional development. Also, in fiscal year 2005 the Educational Service Center completed the implementation of the Virtual Learning Program. In fiscal year 2004 the Educational Service Center had spent the money to purchase the equipment necessary for the program. Fiscal year 2005 is the first year that the program was in complete operation.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Instructional staff expenses saw the biggest increase of all expenses in fiscal year 2005. The Educational Service Center hired an additional support staff member. This increased wages and benefits. Also for the first time in fiscal year 2005, the Educational Service Center picked up the employees' share of retirement for those support staff being paid out of instructional staff.

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

(Table 3)

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Instruction	\$1,459,186	\$1,563,076	\$39,447	(\$42,771)
Support Services	1,937,739	1,721,209	(481,394)	(391,790)
Total Expenses	\$3,396,925	\$3,284,285	(\$441,947)	(\$434,561)

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 \$3,392,888 and expenditures of \$3,374,601.

The fund balance in the General Fund increased \$18,138. 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 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 Governing Board only approves appropriations for the Educational Service Center. Modifications are made throughout the year to adjust for fluctuations in actual expenditures versus budgeted expenditures. Final budgeted expenditures were \$101,486 more than actual expenditures. Original budgeted expenditures were \$271,493 less than final budgeted expenditures.

Brown County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Capital Assets

At the end of fiscal year 2005 the Educational Service Center had \$105,928 invested in capital assets.

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

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Furniture and Equipment	<u>\$105,928</u>	<u>\$78,525</u>

For more information on capital assets, see note 7 to the basic financial statements.

Contacting the Educational Service Center's Financial Management

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

Brown County Educational Service Center

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,074,242
Materials and Supplies Inventory	69,184
Accrued Interest Receivable	2,312
Intergovernmental Receivable	36,805
Prepaid Items	6,964
Depreciable Capital Assets, Net	<u>105,928</u>
 Total Assets	 <u>2,295,435</u>
Liabilities	
Accounts Payable	338
Accrued Wages and Benefits	220,721
Intergovernmental Payable	49,172
Long-Term Liabilities:	
Due Within One Year	46,278
Due in More Than One Year	<u>206,455</u>
 Total Liabilities	 <u>522,964</u>
Net Assets	
Invested in Capital Assets	105,928
Restricted for EMIS	3,000
Unrestricted	<u>1,663,543</u>
 Total Net Assets	 <u><u>\$1,772,471</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, 2005

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<u>Governmental Activities</u>				
Instruction:				
Regular	\$394,347	\$145,444	\$211,936	(\$36,967)
Special	1,064,839	723,328	417,925	76,414
Support Services:				
Pupils	675,898	471,068	1,080	(203,750)
Instructional Staff	629,244	599,286	24,823	(5,135)
Board of Education	27,226	0	0	(27,226)
Administration	224,655	134,483	0	(90,172)
Fiscal	175,588	113,557	0	(62,031)
Operation and Maintenance of Plant	25,835	0	0	(25,835)
Central	179,293	109,048	3,000	(67,245)
Total Governmental Activities	\$3,396,925	\$2,296,214	\$658,764	(441,947)
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				343,907
Investment Earnings				43,217
Total General Revenues				387,124
Change in Net Assets				(54,823)
Net Assets Beginning of Year				1,827,294
Net Assets End of Year				\$1,772,471

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2005

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash Equivalents	\$2,071,242	\$3,000	\$2,074,242
Materials and Supplies Inventory	69,184	0	69,184
Accrued Interest Receivable	2,312	0	2,312
Intergovernmental Receivable	36,805	0	36,805
Prepaid Items	6,964	0	6,964
Total Assets	<u>\$2,186,507</u>	<u>\$3,000</u>	<u>\$2,189,507</u>
Liabilities			
Accounts Payable	\$338	\$0	\$338
Accrued Wages and Benefits	220,721	0	220,721
Intergovernmental Payable	49,172	0	49,172
Deferred Revenue	17,219	0	17,219
Total Liabilities	<u>287,450</u>	<u>0</u>	<u>287,450</u>
Fund Balances			
Reserved for Encumbrances	524	0	524
Unreserved, Reported in:			
General Fund	1,898,533	0	1,898,533
Special Revenue Funds	0	3,000	3,000
Total Fund Balances	<u>1,899,057</u>	<u>3,000</u>	<u>1,902,057</u>
Total Liabilities and Fund Balances	<u>\$2,186,507</u>	<u>\$3,000</u>	<u>\$2,189,507</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, 2005

Total Governmental Fund Balances	\$1,902,057
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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	510,656	
Accumulated depreciation	(404,728)	
Total capital assets	105,928	105,928

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.

Interest	1,283	
Customer Sales and Services	15,936	
	17,219	17,219

Compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(252,733)
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Net Assets of Governmental Activities	\$1,772,471
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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, 2005

	<u>General</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Intergovernmental	\$759,912	\$242,759	\$1,002,671
Interest	44,162	0	44,162
Increase in Fair Value of Investments	2,439	0	2,439
Tuition and Fees	12,881	0	12,881
Customer Sales and Services	2,330,735	0	2,330,735
Total Revenues	<u>3,150,129</u>	<u>242,759</u>	<u>3,392,888</u>
Expenditures			
Current:			
Instruction:			
Regular	221,955	175,936	397,891
Special	1,061,642	1,915	1,063,557
Support Services:			
Pupils	718,877	1,085	719,962
Instructional Staff	531,144	60,823	591,967
Board of Education	27,226	0	27,226
Administration	205,229	0	205,229
Fiscal	173,295	0	173,295
Operation and Maintenance of Plant	26,210	0	26,210
Central	166,413	2,851	169,264
Total Expenditures	<u>3,131,991</u>	<u>242,610</u>	<u>3,374,601</u>
Net Change in Fund Balances	18,138	149	18,287
Fund Balance at Beginning of Year	<u>1,880,919</u>	<u>2,851</u>	<u>1,883,770</u>
Fund Balance at End of Year	<u><u>\$1,899,057</u></u>	<u><u>\$3,000</u></u>	<u><u>\$1,902,057</u></u>

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
 Reconciliation of Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$18,287

*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	60,471	
Depreciation expense	<u>(33,068)</u>	
Excess of capital outlay under depreciation expense		27,403

Because some revenues will not be collected for several months after the Educational Service Center's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred revenues changed by these amounts.

Interest	(3,384)	
Customer Sales and Services	<u>(47,402)</u>	
		(50,786)

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	(60,820)	
Decrease in intergovernmental payable	<u>11,093</u>	
Total additional expenditures		<u>(49,727)</u>

Change in Net Assets of Governmental Activities (\$54,823)

See Accompanying Notes to the Basic Financial Statements

Brown County Educational Service Center
Statement of Fiduciary Assets and Liabilities
June 30, 2005

	<u>Agency</u>
Assets	
Cash and Cash Equivalents in Segregated Accounts	<u>\$568,275</u>
Total Assets	<u><u>\$568,275</u></u>
Liabilities	
Undistributed Monies	<u>\$568,275</u>
Total Liabilities	<u><u>\$568,275</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, 2005

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 47 certified and 45 classified staff members, and provides services to the local and exempted village school districts.

Reporting Entity

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

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

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Educational Service Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

A. Basis of Presentation

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

Government-wide Financial Statements

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

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements

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

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.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

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

C. Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

D. Basis of Accounting

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means 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-one days of fiscal year-end.

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

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

Deferred Revenue

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

Grants and entitlements received before the eligibility requirements are met are 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.

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.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Governing Board's authorization to spend resources and which sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The Board does not approve estimated resources. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, 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 first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Governing Board during the fiscal year.

F. Cash and Cash Equivalents

To improve cash management, all cash received by the Educational Service Center, except cash held as fiscal agent for the Brown County Schools Benefits Consortium and cash held in relation to the 125 plan, is pooled in a central bank account. Individual fund integrity is maintained through Educational Service Center records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents." Cash received and held as fiscal agent for the Brown County Schools Benefits Consortium and cash held in relation to the 125 plan are held in separate bank accounts and are presented as "Cash and Cash Equivalents in Segregated Accounts."

During fiscal year 2005, investments were limited to Federal Home Loan Bank Bonds, STAROhio and certificates of deposit. STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on June 30, 2005.

Investments, except for non-participating investment contracts, are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts, such as nonnegotiable certificates of deposit, are reported at cost.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

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 credited to the General Fund during fiscal year 2005 amounted to \$44,162, which includes \$13,489 assigned from other Educational Service Center funds.

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

G. Inventory

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

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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 which is determined by indexing the current replacement cost back to the year of acquisition), and are updated for additions and retirements during the fiscal year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of 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 capitalized.

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Educational Service Center will compensate the employees for the benefits through paid time off or some other means. The Educational Service Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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

K. Accrued Liabilities and Long-term Obligations

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

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

L. Fund Balance 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.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Net assets restricted for EMIS include activities from State grants that are used for the management information system.

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

The government wide statement of net assets reports \$3,000 of restricted net assets, none of which are restricted by enabling legislation.

N. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 – CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2005, the Educational Service Center has implemented *GASB Statement No. 40, "Deposit and Investment Risk Disclosures"*, *GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation"* and *GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers"*.

GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The implementation of this statement had no effect on the Educational Service Center's financial statements for fiscal year 2005.

GASB Statement No. 46 clarifies how legal enforceability should be applied for determining restricted net assets. The implementation of this new statement had no effect on the Educational Service Center's financial statements for fiscal year 2005.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin had no effect on the Educational Service Center's financial statements for fiscal year 2005.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS

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

Active deposits are public deposits determined to be necessary to meet current demands upon the Educational Service Center 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 five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Interim monies held by the School District may be deposited or invested in the following securities:

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

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

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Educational Service Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year-end, \$1,518,207 of the Educational Service Center's bank balance of \$1,683,264 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all 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 FDIC.

The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

As of June 30, 2005, the Educational Service Center only had investments in STAROhio and Federal Home Loan Bank Bonds.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
STAROhio	\$745,158	Average 33 days
Federal Home Loan Bank Bonds	294,564	April 2007
	<u>\$1,039,722</u>	

Interest Rate Risk

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Credit Risk

STAROhio carries a rating of AAAm by Standard and Poor's. Ohio law requires that STAROhio maintain the highest rating provided by at least one nationally recognized standard rating service. The Federal Home Loan Bank Bonds carry a rating of Aaa by Moody's. The Educational Service Center has no investment policy that would further limit its investment choices.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Educational Service Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Federal Home Loan Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty's trust department or agent but not in the Educational Service Center's name. The Educational Service Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk

The Educational Service Center places no limit on the amount it may invest in any one issuer. The Educational Service Center's investment in Federal Home Loan Bank Bonds represents 28 percent of the Educational Service Center's total investments.

NOTE 5 - RECEIVABLES

Receivables at June 30, 2005, consisted of accrued interest and grants. All receivables are considered collectible in full and will be received within one year. A summary of the principal items of intergovernmental receivables follows:

	<u>Amount</u>
<i>Governmental Activities:</i>	
Excess Costs	<u><u>\$36,805</u></u>

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2005, was as follows:

	Ending Balance <u>6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	Ending Balance <u>6/30/2005</u>
<u>Governmental Activities:</u>				
Capital Assets Being Depreciated:				
Furniture and Equipment	\$450,185	\$60,471	\$0	\$510,656
Total Capital Assets, Being Depreciated	<u>450,185</u>	<u>60,471</u>	<u>0</u>	<u>510,656</u>
Less Accumulated Depreciation:				
Furniture and Equipment	(371,660)	(33,068)	0	(404,728)
Total Accumulated Depreciation	<u>(371,660)</u>	<u>(33,068) *</u>	<u>0</u>	<u>(404,728)</u>
Depreciable Capital Assets, Net	<u>\$78,525</u>	<u>\$27,403</u>	<u>\$0</u>	<u>\$105,928</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$209
Special	2,476
Support Services:	
Pupils	5,605
Instructional Staff	576
Administration	7,783
Fiscal	2,430
Central	13,989
Total Depreciation Expense	<u>\$33,068</u>

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 7 – STATE AND LOCAL SCHOOL DISTRICT FUNDING

The Educational Service Center, under State law, provides supervisory services to the local school districts within its territory. Each local and exempted village school district that entered into an agreement with the Educational Service Center is considered to be provided supervisory services. The cost of the supervisory services is determined by formula under State law. The State Department of Education apportions the costs for all supervisory services among the Educational Service Center's local and exempted village school districts based on each school's total student count.

The Department of Education deducts each school district's amount from their State Foundation Program settlements and remits the amount to the Educational Service Center. The Educational Service Center may provide additional supervisory services if the majority of the client school districts agree to the services and the apportionment of the costs to all of the client school districts.

The Educational Service Center also receives funding from the State Department of Education in the amount of \$37 times the average daily membership of the Educational Service Center. Average daily membership includes the total student counts of all local school districts within the Educational Service Center's territory and all of the Educational Service Center's client school districts. This amount is paid from State resources. The State Department of Education also deducts from the State Foundation Program settlement of each of the Educational Service Center's local and client school districts an amount equal to \$6.50 times the school district's total student count and remits this amount to the Educational Service Center.

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

NOTE 8 - RISK MANAGEMENT

A. Liability Insurance

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, professional liability was provided by the Marsh USA Incorporated Insurance Company with a \$4,000,000 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 a significant decrease in coverage from last year due to a decrease in the aggregate limit the Educational Service Center maintains.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - RISK MANAGEMENT (continued)

B. Workers' Compensation Group Rating Plan

For fiscal year 2005, the Educational Service Center participated in the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

C. Employee Medical and Dental Benefits

The Educational Service Center participates in the Brown County Schools Benefits Consortium (the Consortium), a public entity shared risk and insurance purchasing pool (Note 16) consisting of seven districts. The Educational Service Center has elected to have Medical Mutual provide medical coverage purchased as a group through the Consortium. Dental coverage is being provided through a shared risk pool based on member district's number of employees. The Educational Service Center is responsible for providing a current listing of enrolled employees and for providing timely pro-rata payments of premiums to the Consortium for employee health coverage and dental benefits. The Consortium is responsible for the management and operations of the program. Upon termination from the Consortium, for any reason, the terminated member assumes and is responsible for the payment of any delinquent contributions relating to the medical insurance and all claims related to dental of its employees from the date of termination, regardless of the date such claims were incurred.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center 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 2005, 10.58 percent of annual covered salary was the portion used to fund pension obligations and 3.42 percent was used to fund health care. For fiscal year 2004, 9.09 percent of annual covered salary was the portion 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, 2005, 2004, and 2003 were \$80,209, \$47,327, and \$57,128, respectively; 91.73 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. \$6,634 represents the unpaid contribution for fiscal year 2005.

B. State Teachers Retirement System of Ohio

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

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 9 - DEFINED BENEFIT PENSION PLANS (continued)

The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

For the fiscal year ended June 30, 2005, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2004, the portion used to fund pension obligations was also 13 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003 were \$206,513, \$180,628, and \$167,831, respectively; 90.06 percent has been contributed for fiscal year 2005 and 100 percent for fiscal years 2004 and 2003. Contributions to the DC and Combined Plans for fiscal year 2005 were \$3,930 made by the Educational Service Center and \$6,540 made by the plan members.

NOTE 10 - POSTEMPLOYMENT BENEFITS

The Educational Service Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), 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, 2005

NOTE 10 - POSTEMPLOYMENT BENEFITS (continued)

All retirees who participated in the DB or Combined Plans and their dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. All 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 Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2005, the STRS Ohio Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount equaled \$15,886 for fiscal year 2005.

STRS Ohio pays health care benefits from the Health Care Stabilization Fund. At June 30, 2004 (the latest information available), the balance in the Fund was \$3.1 billion. For the year ended June 30, 2004, net health care costs paid by STRS Ohio were \$268,739,000 and STRS Ohio had 111,853 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, 2005, employer contributions to fund health care benefits were 3.43 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 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$37,177.

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, 2004, were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004 (the latest information available), SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Other Employee Benefits

The Educational Service Center provides term life insurance and accidental death and dismemberment insurance to all of its full time employees through Jefferson Pilot Financial Insurance Company.

C. 125 Plan

The Educational Service Center provides its full time employees an option to participate in an I.R.C. Section 125 plan. Money allocated to this plan must be used for expenses covered by that benefit during that year. Any monies not used by the end of the plan year are forfeited to the General Fund.

Employees may elect to have plan benefit dollars applied to a health care reimbursement plan, a dependent care assistance plan, or an insurance premium payment plan. Participation is renewed annually with each fiscal year beginning August 1 and ending July 31. This plan has been included as an Agency Fund and is administered by Business Plans.

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during the fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Amount Outstanding 6/30/05	Amount Due in One Year
<u>Governmental Activities</u>					
Compensated Absences	<u>\$191,913</u>	<u>\$126,819</u>	<u>\$65,999</u>	<u>\$252,733</u>	<u>\$46,278</u>

Compensated absences will be paid from the General Fund.

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 13 – JOINTLY GOVERNED ORGANIZATION

The Educational Service Center is a participant in the South Central Ohio Computer Association (SCOCA), which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Adams, Brown, Highland, Jackson, Pike, Ross, Scioto, Vinton, Pickaway, Galia and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each county in the SCOCA service region designated by the Ohio Department of Education, two representatives of the school treasurers, plus a representative of the fiscal agent. The Educational Service Center paid SCOCA \$6,200 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County Joint Vocational School District, Tonya Cooper, who serves as Treasurer, at P. O. Box 577, 175 Beaver Creek Road, Piketon, Ohio 45661.

NOTE 14 – INSURANCE PURCHASING POOL

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

NOTE 15 – PUBLIC ENTITY SHARED RISK AND INSURANCE PURCHASING POOL

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

BROWN COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2005

NOTE 16 – LEASES – LESSEE DISCLOSURE

The Educational Service Center leases building space under non-cancelable operating leases. Operating lease payments are reported as function expenditures in the General Fund. Total operating lease payments in fiscal year 2005 were \$13,584.

The following is a schedule of the future minimum lease payments:

<u>Fiscal Year Ending June 30,</u>		
2006		\$16,512
2007		<u>20,640</u>
	Total	<u><u>\$37,152</u></u>

NOTE 17 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements, and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

B. Litigation

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

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brown County Educational Service Center (the Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 14, 2006 in which we indicated the Educational Service Center implemented GASB Statements No. 40 and 41 and GASB Technical Bulletin 2004-2. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board
Brown County Educational Service Center
Report on the Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards
Page 2

This report is intended solely for the information and use of the audit committee, management, members of the Board, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A rectangular box containing a handwritten signature in cursive script that reads "Balestra, Harr & Scherer".

Balestra, Harr & Scherer, CPAs, Inc.

December 14, 2006



Mary Taylor, CPA
Auditor of State

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 22, 2007**