



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Butler County Educational Service Center
Butler County
6025 Dixie Highway, Suite 300
Fairfield, Ohio 45014

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2000 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.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the Butler County Educational Service Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

January 14, 2000

Butler County Educational Service Center

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
FOR THE YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
ASSETS AND OTHER DEBITS						
ASSETS:						
Equity in pooled cash and cash equivalents	\$632,844	\$643,098	\$203,770			\$1,479,712
Receivables (net of allowances of uncollectibles):						
Accounts	8,617					8,617
Accrued interest	4,319	714	123			5,156
Interfund loan receivable	9,218					9,218
Prepayments	7,731					7,731
Property, plant and equipment (net of accumulated depreciation where applicable)				\$618,710		618,710
OTHER DEBITS:						
Amount to be provided for retirement of General Long-Term Obligations					\$32,308	32,308
Total assets and other debits	\$662,729	\$643,812	\$203,893	\$618,710	\$32,308	\$2,161,452
LIABILITIES, EQUITY AND OTHER CREDITS						
LIABILITIES:						
Accounts payable	\$9,194	\$62,147				\$71,341
Accrued wages and benefits	157,818	304,040				461,858
Compensated absences payable	9,701	7,529			\$26,280	43,510
Pension obligation payable	24,860	71,498				96,358
Interfund loan payable		4,882	\$4,336			9,218
Due to other governments			48,247			48,247
Deposits held and due to others			114,400			114,400
Obligation under capital lease					6,028	6,028
Total liabilities	201,573	450,096	166,983		32,308	850,960
EQUITY AND OTHER CREDITS:						
Investment in general fixed assets				\$618,710		618,710
Fund balances:						
Reserved for encumbrances	14,119	345,384	540			360,043
Reserved for prepayments	7,731					7,731
Unreserved-undesignated	439,306	(151,668)	36,370			324,008
Total equity and other credits	461,156	193,716	36,910	618,710		1,310,492
Total liabilities, equity and other credits	\$662,729	\$643,812	\$203,893	\$618,710	\$32,308	\$2,161,452

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Expendable Trust	
Revenues:				
From local sources:				
Earnings on investments	\$61,424	\$9,097	\$1,674	\$72,195
Other local revenues	265,208		225	265,433
Intergovernmental - State	2,500,206	2,016,841		4,517,047
Intergovernmental - Federal		3,426,412		3,426,412
Total revenue	2,826,838	5,452,350	1,899	8,281,087
Expenditures:				
Current:				
Instruction:				
Regular	124,336			124,336
Special	191,199	1,137,295		1,328,494
Support services:				
Pupil	513,620	1,714,029	313	2,227,962
Instructional staff	823,079	774,712		1,597,791
Board of Education	93,477			93,477
Administration	386,487	466,802		853,289
Fiscal	49,420	95,102		144,522
Operations and maintenance	95,486	463,579		559,065
Pupil transportation	391,337	430,979		822,316
Central	265,806	36,077		301,883
Community service			1,000	1,000
Debt service:				
Principal retirement	1,732			1,732
Interest and fiscal charges	776			776
Total expenditures	2,936,755	5,118,575	1,313	8,056,643
Excess (deficiency) of revenues over (under) expenditures	(109,917)	333,775	586	224,444
Fund balance (Deficit), July 1 (Restated)	571,073	(140,059)	36,324	467,338
Fund balance, June 30	\$461,156	\$193,716	\$36,910	\$691,782

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE
AN INTEGRAL PART OF THIS STATEMENT

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	General Fund			Special Revenue			Total (Memorandum only)		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
Revenues:									
From local sources:									
Earnings on investments	\$61,579	\$61,579	\$0	\$9,079	\$9,079	\$0	\$70,658	\$70,658	\$0
Other local revenues	259,058	259,058	0				259,058	259,058	0
Intergovernmental - State	2,500,206	2,500,206	0	2,099,483	2,099,483	0	4,599,689	4,599,689	0
Intergovernmental - Federal				3,426,338	3,426,338	0	3,426,338	3,426,338	0
Total revenues	2,820,843	2,820,843	0	5,534,900	5,534,900	0	8,355,743	8,355,743	0
Expenditures:									
Current:									
Instruction:									
Regular	115,785	115,785	0				115,785	115,785	0
Special	184,817	184,817	0	1,199,168	1,199,168	0	1,383,985	1,383,985	0
Support services:									
Pupil	504,085	504,085	0	1,983,043	1,983,043	0	2,487,128	2,487,128	0
Instructional staff	824,472	824,472	0	772,487	772,487	0	1,596,959	1,596,959	0
Board of Education	94,303	94,303	0				94,303	94,303	0
Administration	394,041	394,041	0	464,794	464,794	0	858,835	858,835	0
Fiscal	49,602	49,602	0	94,807	94,807	0	144,409	144,409	0
Operations and maintenance	94,840	94,840	0	502,732	502,732	0	597,572	597,572	0
Pupil transportation	389,558	389,558	0	449,791	449,791	0	839,349	839,349	0
Central	265,152	265,152	0	34,913	34,913	0	300,065	300,065	0
Total expenditures	2,916,655	2,916,655	0	5,501,735	5,501,735	0	8,418,390	8,418,390	0
Excess (deficiency) of revenues over (under) expenditures			0	33,165	33,165	0			0
Other financing sources (uses):									
Refund of prior year's expenditures				75	75	0	75	75	0
Refund of prior year's (receipts)						0			0
Advances in	72,469	72,469	0	4,882	4,882	0	77,351	77,351	0
Advances (out)			0			0			0
Total other financing sources (uses)	63,251	63,251	0			0	52,203	52,203	0
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)			0	22,117	22,117	0			0
Fund balance, July 1	621,284	621,284	0	119,321	119,321	0	740,605	740,605	0
Prior year encumbrances appropriated	29,185	29,185	0	107,855	107,855	0	137,040	137,040	0
Fund balance, June 30	\$617,908	\$617,908	\$0	\$249,293	\$249,293	\$0	\$867,201	\$867,201	\$0

THE NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT

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NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE ENTITY

The Butler County Educational Service Center (the "ESC") is the successor to the former Butler County Governing Board. County boards of education were formed in Ohio as a result of the passage of Senate Bill 9, in 1914. In 1995, Am. Sub. H.B. 117 authorized the creation of Educational Service Centers and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board". On July 1, 1995, the Butler County Board of Education formally adopted these changes and became henceforth the "Governing Board of the Butler County Educational Service Center".

The ESC is located at 6025 Dixie Highway, Suite 300, Fairfield, Ohio, in offices paid for by the Butler County Commissioners, as provided by O.R.C. 3319.19.

The Governing Board consists of five members elected by the voters of the County. This board acts as the authorizing body for expenditures, policy and procedures, and approves all financial activities. The ESC is staffed by 199 non-certificated employees and 28 certificated employees (including administrative) to provide services to approximately 44,236 students in 8 districts throughout the County.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the ESC 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 ESC's significant accounting policies are described below.

A. The Reporting Entity

The reporting entity is comprised of the primary government. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the ESC. For the ESC, this includes general and preschool operations.

Component units are legally separate organizations for which the ESC would be financially accountable. Accountability as defined in GASB Statement No. 14 was evaluated based on financial accountability, the nature and significance of the potential component unit's (PCU) relationship with the ESC, and whether exclusion would cause the ESC's general-purpose financial statements to be misleading or incomplete. Among the factors considered were separate legal standing; appointment of a voting majority of the PCU's board; fiscal dependency and whether a benefit or burden relationship exists; imposition of will; and the nature and significance of the PCU's relationship with the ESC. Responsibility was evaluated on the basis of financial dependence and the manifestations of oversight exercised by the Governing Board. Among the factors considered were budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the ESC, any obligation of the ESC to finance any deficits that may occur, reliance of the organization on continuing subsidies from the ESC, and/or selection of governing authority, and designation of management. The ESC has no component units.

The ESC serves as fiscal agent for the Butler County Area Media Center and the Butler County Family and Children First Council, but is not accountable as defined in GASB Statement No. 14; accordingly, they have been included in the ESC's financial statements as agency funds. The Media Center is a separate agency which provides media items such as educational films, videos, and reference books to school districts within Butler County. The Family and Children First Council is a separate agency which provides services to qualified Butler County families and children.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATION

Southwest Ohio Computer Association (SWOCA)

SWOCA is jointly governed among 28 school districts. This jointly governed organization was formed for the purpose of applying modern technology (with the aid of computers and other electronic equipment) to the administrative and instructional functions of member districts. Each of the governments of these school districts supports SWOCA based upon a per pupil charge, dependent upon the software package utilized. In the event of dissolution of the organization, all current members will share in net obligations or asset liquidations in a ratio proportionate to their last twelve months' financial contributions.

SWOCA is governed by a Board of Directors consisting of superintendents of the member school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. In accordance with GASB Statement No. 14, the ESC does not have an equity interest in SWOCA because the residual interest in the net resources of a joint venture upon dissolution is not equivalent to an equity interest.

The ESC also participates in two group purchasing pools for insurance, described in Note 14.

B. Fund Accounting

The ESC uses funds and account groups to report its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC activities or functions. Funds are classified into two categories: governmental and fiduciary. Each category is divided into separate fund types.

GOVERNMENTAL FUNDS

Governmental Funds are those through which most governmental functions of the ESC are financed. The acquisition, use and balances of the ESC's expendable financial resources and the related liabilities (except those accounted for in fiduciary funds) are accounted for through governmental funds. The following are the ESC's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the ESC and is used to account for all financial resources except those required to be accounted for in another fund.

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

FIDUCIARY FUNDS

Trust and Agency Funds - These funds are used to account for assets held by the County in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust and Agency Funds. Expendable trusts are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

ACCOUNT GROUPS

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

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the ESC.

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

C. Measurement Focus/Basis of Accounting

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

The modified accrual basis of accounting is followed for Governmental and Expendable Trust funds. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the current period, which for the ESC is sixty days after the June 30 year-end. Revenues accrued at the end of the year include interest, and accounts.

Expenditures (decreases in net financial resources) are recognized in the period in which the fund liability is incurred with the following exceptions: general long-term obligation principal and interest are reported only when due; and the costs of accumulated unpaid vacation and sick leave are reported as expenditures in the period in which they will be liquidated with available financial resources rather than in the period earned by employees.

D. Budgets

An Educational Service Center is required by state Statute, 3317.11 ORC, to submit an annual budget of operating expenses to the State Governing Board for approval.

1. Appropriations for the ensuing year for an ESC are prepared on forms furnished by the State Governing Board which certify the budget to the State, together with such other information as the Board may require. Said budget shall consist of two parts: Part(A) shall include the cost of the salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Governing Board. Part (B) shall include the cost of all other lawful expenditures of the Educational Service Center. The State Governing Board shall review such budget and may approve, increase, or decrease such budget. A portion of the ESC's operating expenses are apportioned among the various districts in the ESC's service area on the basis of the total number of pupils in each district and deducted from funds allocated to districts under the school foundation program. The annual appropriation resolution is legally enacted by the ESC at the fund, function and object level of expenditures, which are the legal levels of budgetary control.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

2. Any revisions that alter the total of any fund appropriation or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by the State Governing Board.
3. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions. All departments/functions and funds completed the year within the amount of their legally authorized cash basis appropriation.
4. Appropriation amounts are as originally adopted, or as amended by the ESC through the year by supplemental appropriations which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the ESC during fiscal 1999 in the following amounts:

	<u>Increase(Decrease)</u>
General Fund	\$ 163,966
Special Revenue Funds	1,474,684
Expendable Trust	(4,147)
Agency	452,263
 Total, All Funds	 \$2,086,766

5. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund, function and/or object level.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the appropriated governmental and proprietary funds. Encumbrances outstanding at year-end are reported as reservations of fund balance for subsequent year expenditures on the modified accrual basis of accounting (Exhibit 1), compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting (Exhibit 3). Note 12 provides a reconciliation of the budgetary and GAAP basis of accounting.

E. Cash and Investments

To improve cash management, cash received by the ESC is pooled. Monies for all funds, are maintained in this pool. Individual fund integrity is maintained through the ESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet. Although the ESC is fiscal agent for the Butler County Area Media Center and Butler County Family and Children First Council as described in Note 2, the ESC is not operating an external investment pool, because interest revenue is not allocated to this Agency fund.

During 1999, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 1999.

Under existing Ohio statutes all investment earnings are assigned to the General Fund except for those specifically related to the Head Start fund and the Expendable Trust fund, in accordance with Board policy. The following fund was credited with more interest revenue than would have been received based upon its share of the ESC's investments:

	<u>Interest Actually Received</u>	<u>Interest Based Upon Share of Investments</u>	<u>Interest Assigned By Other Funds</u>
General Fund	\$61,424	\$35,918	\$25,506

An analysis of the Treasurer's investment account at year end is provided in Note 4.

F. Fixed Assets and Depreciation

General Fixed Assets Account Group

General fixed assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year in the General Fixed Assets Account Group. Donated fixed assets are recorded at their fair market values as of the date donated. The ESC follows the capitalization policy of not capitalizing assets with a cost of less than \$500 and a useful life of less than three years. No depreciation is recognized for assets in the General Fixed Assets Account Group. The ESC has no infrastructure.

G. Intergovernmental Revenues

In Governmental Funds, entitlements and non-reimbursable grants (to the extent such grants and entitlements relate to the current fiscal year) are recorded as receivables and revenue when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. The ESC currently participates in various state and federal programs categorized as follows:

Entitlements

General Fund
State Foundation Program

Non-Reimbursable Grants

Special Revenue
Teacher Development
Children's Trust
Early Childhood Education
Adolescent Pregnancy Prevention
Management Information Systems
Head Start
Economic Opportunity

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Grants and entitlements amounted to over 95% of the ESC's operating revenue during the 1999 fiscal year.

H. Short-Term Interfund Receivables/Payables

At June 30, 1999 the ESC had short-term interfund loans which are classified as "interfund loans receivable/payable". All such short-term interfund loans are made pursuant to Governing Board resolution and are repaid in the following fiscal year. An analysis of interfund balances is reflected in Note 5.

I. Compensated Absences

Compensated absences of the ESC consist of vacation leave and sick leave to the extent that payment to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the ESC and the employee.

In accordance with the provisions of GASB Statement No. 16, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service and/or twenty (20) years' service regardless of age were considered expected to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

Accumulated vacation and sick leave of Governmental Fund Type employees meeting the above requirements have been recorded in the appropriate Governmental fund as a current liability to the extent that the amounts are expected to be payable within the current available period. The balance of the liability is recorded in the General Long-Term Obligations Account Group.

J. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Obligations Account Group.

K. Fund Equity

Reserved fund balances indicate that portion of fund equity which is not available for current appropriation or is legally segregated for a specific use. Fund balances are reserved for encumbrances and prepaid assets. The unreserved portions of fund equity reflected for the governmental funds are available for use within the specific purposes of those funds.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

L. Interfund Transactions

During the course of normal operations, the ESC has numerous transactions between funds. The most significant include:

1. Transfers of resources from one fund to another fund. The resources transferred are to be expended for operations by the receiving fund and are recorded as operating transfers, with the exception of agency funds, which do not report transfers of resources as operating transfers.
2. Reimbursements from one fund to another are treated as expenditures/expenses in the reimbursing fund and a reduction in expenditures/expenses in the reimbursed fund.
3. Short-term interfund loans made pursuant to Governing Board Resolution are reflected as "interfund loans receivable or payable." Such interfund loans are repaid in the following fiscal year.
4. Quasi-external transactions are similar to the purchase of goods or services from a vendor; i.e., the fund which provides a service records revenue, and the fund which receives that service records an expenditure/expense.
5. Residual equity transfers are non-recurring or non-routine permanent transfers of equity, generally made when a fund is closed.
6. Long-term interfund loans that will not be repaid within the next year are termed "advances" and are shown as reservations of fund balances on the combined balance sheet for those funds that report advances to other funds as assets because they are not spendable, available resources.

An analysis of the ESC's interfund transactions for fiscal year 1999 is presented in Note 5.

M. Prepaids

Prepayments for Governmental funds represent cash disbursements which have occurred and are therefore not current expendable resources. These items are reported as fund assets on the balance sheet using the allocation method, which amortizes their cost over the periods benefitting from the advance payment. At period-end, because prepayments are not available to finance future Governmental fund expenditures, the fund balance is reserved by an amount equal to the carrying value of the asset.

N. Estimates

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

O. Memorandum Only - Total Columns

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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 3 - CHANGES IN FINANCIAL STATEMENT PRESENTATION AND OTHER FUND DISCLOSURES

A. Prior Period Adjustment

At June 30, 1999, the ESC has presented a reclassification of the Children's Trust fund from a Special Revenue fund to a component of the District Agency fund in order to properly reflect its measurement focus. The effect of this adjustment on fund equity as previously reported is as follows:

	Fund (Deficit) as Previously Reported June 30, 1998	Adjustment	Restated Fund (Deficit) July 1, 1998
Special Revenue Funds	\$(123,929)	\$(16,130)	\$(140,059)

B. Accountability and Compliance

Deficit Fund Balances

Fund balances at June 30, 1999 included the following individual fund deficits:

	Deficit Balance
<u>Special Revenue Funds</u>	
Miscellaneous State Grants Fund	\$ (4,909)
Economic Opportunity	(172,283)

These GAAP deficits will be funded by anticipated future intergovernmental revenues or other subsidies not recognized and recorded at June 30.

C. Agency Funds

The following is a receivable for the agency fund, which, in another fund type, would be recognized in the combined balance sheet:

(Not reported on the Combined Balance Sheet)	
Other Revenue	\$5,773

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS

State statutes classify monies held by the ESC into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC 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 the Governing Board has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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 ESC's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, Notes, Debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) 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 and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time; and,
8. Under limited circumstances, corporate debt instruments 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 ESC, 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

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 1999

(Continued)

NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)

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

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

Deposits: At year-end the carrying amount of the ESC's deposits was \$590,469 and the bank balance was \$701,012. Of the bank balance:

1. \$100,000 was covered by federal deposit insurance.
2. \$601,012 was uninsured and uncollateralized. Although all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the ESC held to a successful claim by the FDIC.

Investments: The ESC's investments are required to be categorized to give an indication of the level of risk assumed by the ESC at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the ESC or its agent in the ESC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the ESC'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 ESC's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Fair Value</u>
Not Subject to Categorization:	
Investment in State Treasurer's Investment Pool	\$889,243
Total Investments	<u>\$889,243</u>

A reconciliation between the classifications of cash and cash equivalents and investments on the combined balance sheet per GASB Statement No. 9 and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
GASB Statement No. 9 Investments of the Cash Management Pool:		
State Treasurer's Investment Pool	<u>(889,243)</u>	<u>\$889,243</u>
GASB Statement No. 3	<u>\$ 590,469</u>	<u>\$889,243</u>

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 1999

(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

Interfund balances at June 30, 1999, consist of the following individual interfund loans receivable and/or payable:

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans (Payable)</u>
<u>General Fund</u>	\$9,218	
<u>Special Revenue Funds</u>		
Miscellaneous State Grants		\$(4,882)
<u>Agency Funds</u>	_____	<u>(4,336)</u>
Total All Fund Types	<u>\$9,218</u>	<u>\$(9,218)</u>

NOTE 6 - RECEIVABLES

Receivables at June 30, 1999 consisted primarily of accounts, and investment earnings. All receivables are considered collectible in full due to the stable condition of State programs, and the current year guarantee of Federal funds. A summary of the principal items of receivables follows:

	<u>Amounts</u>
<u>General Fund</u>	
Other local revenue	\$8,617
Earnings on investments	4,319

NOTE 7 - FIXED ASSETS

A summary of the changes in the General Fixed Asset Account Group during the fiscal year follows:

	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1999</u>
Furniture/ Equipment	\$678,240	\$78,544	\$(197,805)	\$558,979
Vehicles	<u>40,752</u>	<u>18,979</u>	_____	<u>59,731</u>
Total	<u>\$718,992</u>	<u>\$97,523</u>	<u>\$(197,805)</u>	<u>\$618,710</u>

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE

In prior fiscal years the ESC entered into a capital lease for a copier.

The terms of each agreement provide options to purchase the equipment. Each lease meets the criteria of a capital lease as defined by Statement No. 13 of the Financial Accounting Standards Board, Accounting for Leases, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Fund Types and Expendable Trust Funds.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 8 - CAPITALIZED LEASES - LESSEE DISCLOSURE (Continued)

These expenditures are reflected as program/function expenditures on a budgetary basis. General fixed assets acquired by lease have been capitalized in the General Fixed Assets Account Group in an amount equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability was recorded in the General Long-Term Obligations Account Group. Principal payments in the 1999 fiscal year totaled \$1,732. This amount is reflected as debt service principal retirement in the General fund.

The following is an analysis of equipment leased under capital leases as of June 30, 1999:

	<u>GFAAG</u>
Equipment (copiers)	<u>\$9,676</u>
Carrying Value	<u>\$9,676</u>

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999.

<u>General Long-Term Obligation</u>	
<u>June 30 Year Ending</u>	<u>Copiers</u>
2000	\$2,508
2001	2,508
2002	<u>2,028</u>
Total Minimum Lease Payments	7,044
Less: Amount Representing Interest	<u>(1,016)</u>
Present Value of Future Minimum Lease Payments	<u>\$6,028</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During the year ended June 30, 1999, the following changes occurred in liabilities reported in the General Long-Term Obligations Account Group. Compensated absences will ultimately be paid from the fund from which the employee is paid.

	<u>Balance July 1, 1998</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance June 30, 1999</u>
Compensated Absences:				
Severance \$17,675	\$ 3,288	\$ (2,093)	\$18,870	
Vacation	15,059	33,754	(41,403)	7,410
Pension obligation payable	39,598		(39,598)	
Capital Leases	<u>7,760</u>		<u>(1,732)</u>	<u>6,028</u>
TOTAL	<u>\$80,092</u>	<u>\$37,042</u>	<u>\$(84,826)</u>	<u>\$32,308</u>

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

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

Plan members are required to contribute 9 percent of their annual covered salary and the ESC is required to contribute 14 percent for 1999; 9.02 percent was the portion to fund pension obligations. The contribution rates are not determined actuarially, but are established by the School Employees Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The ESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$522,314, \$486,681, and \$413,147, respectively; 93 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$39,416, which represents the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

N. State Teachers Retirement System

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

Plan members are required to contribute 9.3 percent of their annual covered salary and the ESC is required to contribute 14 percent; 10.5 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$170,712, \$149,422, and \$126,195, respectively 92 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$13,029, which represents the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

O. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, members of the Governing Board have elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 3.5 percent of covered payroll to the Health Care Reserve Fund for which payments for health care benefits are paid. For the ESC, this amount equaled \$42,678 during the 1999 fiscal year. As of July 1, 1999 eligible benefit recipients totaled 91,999. For the fiscal year ended June 30, 1998 net health care costs paid by STRS were \$219,224,000.

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

For this fiscal year, employer contributions to fund health care benefits were 4.98 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the ESC, the amount to fund health care benefits, including surcharge, equaled \$232,069 during the 1999 fiscal year. The number of participants currently receiving health care benefits is 50,000. For the fiscal year ended June 30, 1998, net health care costs paid by SERS were \$111,900,575.

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING

While 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 and disbursements.

The Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, encumbrances are recorded as the equivalent of an expenditure (budget basis) as opposed to a reservation of fund balance for governmental funds (GAAP basis).

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 12 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing
Sources Over (Under) Expenditures and Other
Financing Uses**

		<u>Governmental Fund Types</u>	
		<u>General</u>	<u>Special Revenue</u>
Budget Basis	\$ (32,561)	\$ 22,117	
Net Adjustment for Revenue Accruals		5,994	(68,717)
Net Adjustment for Expenditure Accruals		(35,035)	(34,120)
Net Adjustment for Other Financing Sources (Uses)		(63,251)	11,048
Net Adjustment for Fund Reclassification			3,509
Encumbrances (Budget Basis)		<u>14,936</u>	<u>399,938</u>
GAAP Basis		<u><u>\$(109,917)</u></u>	<u><u>\$333,775</u></u>

NOTE 13 - CONTINGENCIES

A. Grants

The ESC receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the ESC at June 30, 1999.

B. Litigation

The ESC is party to legal proceedings. The ESC management is of the opinion that ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the ESC.

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 13 - CONTINGENCIES (Continued)

C. School Funding Decision

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this ESC. During the fiscal year ended June 30, 1999, the ESC received \$2,986,052 of school foundation support in total (all funds) support.

Since the Supreme Court ruling, numerous pieces of legislations have been passed by the State legislature in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. As of June 30, 1999, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts still operating under the laws that the Common Pleas Court declared unconstitutional.

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

NOTE 14 - RISK MANAGEMENT

The ESC 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. The ESC carries commercial insurance for all risks of loss, including workers' compensation, general liability, and employee health and accident insurance (through the Butler County Health Plan, a group purchasing cooperative). Settled claims resulting from these risks have not exceeded commercial insurance in any of the past three fiscal years.

During fiscal year 1999, the ESC purchased from Nationwide Insurance Company (through the Ohio School Boards Association) general liability insurance, which carried a \$2 million per occurrence/\$5 million annual aggregate limitation.

OSBA WORKER'S COMPENSATION GROUP RATING

The ESC joined, in fiscal 1997, the OSBA Worker's Compensation Group Rating Program, which was established in April 1991. The program was created by the Ohio School Boards Association as a result of the Workers' Compensation group rating plan as defined in 4123.29, Ohio Revised Code. The group rating plan will allow school ESCs to group together to potentially achieve a lower premium rate than they may otherwise be able to acquire as individual employers.

NOTE 15 - YEAR 2000 ISSUE

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the ESC's operations as early as fiscal year 1999.

Butler County Educational Service Center has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to

NOTES TO GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 15 - YEAR 2000 ISSUE (Continued)

conducting Educational Service Center operations and has identified such systems as being financial reporting, payroll and employee benefits.

The Educational Service Center uses the Ohio Education Computer Network (OECN) State Software for their budgetary, payroll and education management information system (EMIS) accounting services. These services are provided by the Southwest Ohio Computer Association (SWOCA - see Note 2). OECN is responsible for remediating these systems.

Fifth Third Bank is the Educational Service Center's main bank for the processing of daily banking transactions and processes the electronic fund transfers for all the schools using the SWOCA system. As of December 31, 1999, per Fifth Thirds Internet Web page, the bank has completed final testing and is Y2K compliant.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. Management cannot assure the Educational Service Center is or will be Year 2000 ready, that the Educational Service Center's remediation efforts will be successful in whole or in part, or that parties with whom the Educational Service Center does business will be Year 2000 ready.

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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Child Care and Adult Care Food Program	21-ML	10.558	\$297,351	\$296,159
Total U.S. Department of Agriculture			<u>297,351</u>	<u>296,159</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Head Start *	-	93.600	3,178,965	3,069,631
Total Department of Education			<u>3,178,965</u>	<u>3,069,631</u>
Totals			<u>\$3,476,316</u>	<u>\$3,365,790</u>

The accompanying notes to this schedule are an integral part of this schedule.

* Major Program

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

Certain Federal programs require that the Government contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Service Center has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

Butler County Educational Service Center
Butler County
6025 Dixie Highway, Suite 300
Fairfield, Ohio 45014

To the Board of Education:

We have audited the financial statements of the Butler County Educational Service Center, Butler County, Ohio, (the Service Center), as of and for the fiscal year ended June 30, 1999, and have issued our report thereon dated January 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted a matter involving the internal control over financial reporting that does not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated January 14, 2000.

This report is intended for the information and use of the audit committee, management, Board of Education, 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.

Jim Petro
Auditor of State

January 14, 2000



**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Butler County Educational Service Center
Butler County
6025 Dixie Highway, Suite 300
Fairfield, Ohio 45014

To the Board of Education:

Compliance

We have audited the compliance of the Butler County Educational Service Center, Butler County, Ohio, (the Service Center) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the fiscal year ended June 30, 1999. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 1999.

Internal Control Over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Education, 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.

Jim Petro
Auditor of State

January 14, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Headstart - CFDA #93.600
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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EDUCATIONAL SERVICE CENTER

BUTLER 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
FEBRUARY 1, 2000**