



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY**

**SINGLE AUDIT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2001**



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

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**STATE OF OHIO**



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY**

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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 the Butler County Educational Service Center, Butler County, Ohio (the Service Center), as of and for the year ended June 30, 2001, 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 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 opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Service Center, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2002 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of the Service Center, taken as a whole. The accompanying schedule of federal awards expenditures is presented for 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. We subjected this information 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 31, 2002

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**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**BUTLER COUNTY, OHIO**  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
<u>ASSETS AND OTHER DEBITS</u>							
ASSETS:							
Equity in pooled cash and cash equivalents . . . . .	\$433,020	\$133,320	\$13,754	\$728,443			\$1,308,537
Receivables (net of allowances of uncollectibles):							
Accounts . . . . .		32,150					32,150
Accrued interest . . . . .	4,096	529		105			4,730
Interfund loan receivable . . . . .	110,232						110,232
Due from other governments . . . . .		25,681					25,681
Prepayments . . . . .	21,207						21,207
Property, plant and equipment (net of accumulated depreciation where applicable) . . . . .					\$1,481,819		1,481,819
OTHER DEBITS:							
Amount to be provided for retirement of General Long-Term Obligations . . . . .						\$79,813	79,813
Total assets and other debits . . . . .	<u>\$568,555</u>	<u>\$191,680</u>	<u>\$13,754</u>	<u>\$728,548</u>	<u>\$1,481,819</u>	<u>\$79,813</u>	<u>\$3,064,169</u>

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

--Continued



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**BUTLER COUNTY, OHIO**  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES AND ACCOUNT GROUPS  
 JUNE 30, 2001  
 (Continued)

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>							
<b>LIABILITIES:</b>							
Accounts payable . . . . .	\$15,932	\$7,124					\$23,056
Accrued wages and benefits. . . . .	282,043	411,199					693,242
Compensated absences payable. . . . .	12,612	2,513				\$79,813	94,938
Pension obligation payable . . . . .	48,258	88,737					136,995
Interfund loan payable. . . . .		12,449		\$97,783			110,232
Due to other governments. . . . .				41,221			41,221
Deposits held and due to others. . . . .				558,041			558,041
Obligation under capital lease . . . . .							0
<b>Total liabilities . . . . .</b>	<b>358,845</b>	<b>522,022</b>		<b>697,045</b>		<b>79,813</b>	<b>1,657,725</b>
<b>EQUITY AND OTHER CREDITS:</b>							
Investment in general fixed assets. . . . .					\$1,481,819		1,481,819
Fund balances:							
Reserved for encumbrances. . . . .	35,272	132,943		210			168,425
Reserved for prepayments . . . . .	21,207						21,207
Unreserved-undesignated. . . . .	153,231	(463,285)	\$13,754	31,293			(265,007)
<b>Total equity and other credits. . . . .</b>	<b>209,710</b>	<b>(330,342)</b>	<b>13,754</b>	<b>31,503</b>	<b>1,481,819</b>		<b>1,406,444</b>
<b>Total liabilities, equity and other credits . . . . .</b>	<b>\$568,555</b>	<b>\$191,680</b>	<b>\$13,754</b>	<b>\$728,548</b>	<b>\$1,481,819</b>	<b>\$79,813</b>	<b>\$3,064,169</b>

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**BUTLER COUNTY, OHIO**  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES (DEFICITS)  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND  
 FOR THE YEAR ENDED JUNE 30, 2001

	Governmental Fund Types			Fiduciary Fund Type	Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Expendable Trust	
Revenues:					
From local sources:					
Tuition. . . . .		\$83,279			\$83,279
Earnings on investments. . . . .	\$56,454	10,995		\$1,892	69,341
Other local revenues. . . . .	416,479	32,150	\$5,001	1,500	455,130
Other revenue. . . . .		1,000			1,000
Intergovernmental - State. . . . .	3,183,067	1,556,149			4,739,216
Intergovernmental - Federal . . . . .		3,977,697			3,977,697
<b>Total revenue . . . . .</b>	<b>3,656,000</b>	<b>5,661,270</b>	<b>5,001</b>	<b>3,392</b>	<b>9,325,663</b>
Expenditures:					
Current:					
Instruction:					
Regular. . . . .	213,759				213,759
Special . . . . .	233,046	953,956			1,187,002
Support services:					
Pupil . . . . .	815,227	2,068,060			2,883,287
Instructional staff. . . . .	1,141,228	1,003,159			2,144,387
Governing Board. . . . .	7,176				7,176
Administration . . . . .	712,236	510,901			1,223,137
Fiscal. . . . .	69,183	107,913			177,096
Operations and maintenance. . . . .	115,119	533,488			648,607
Pupil transportation. . . . .	101,014	577,236			678,250
Central . . . . .	573,641	26,896			600,537
Community services. . . . .				8,508	8,508
Debt service:					
Principal retirement . . . . .	4,093				4,093
Interest and fiscal charges. . . . .	443				443
<b>Total expenditures. . . . .</b>	<b>3,986,165</b>	<b>5,781,609</b>		<b>8,508</b>	<b>9,776,282</b>
Excess (deficiency) of revenues over (under) expenditures . . . . .	(330,165)	(120,339)	5,001	(5,116)	(450,619)
Fund balance (Deficit), July 1 . . . . .	539,875	(210,003)	8,753	36,619	375,244
Fund balance (Deficit), June 30 . . . . .	<u>\$209,710</u>	<u>(\$330,342)</u>	<u>\$13,754</u>	<u>\$31,503</u>	<u>(\$75,375)</u>

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

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BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
 BUTLER COUNTY, OHIO  
 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 30,2001

	General			Special Revenue		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Revenues:						
From local sources:						
Tuition.....				\$94,967	\$83,279	(\$11,688)
Earnings on investments.....	\$51,703	\$57,169	\$5,466	14,707	11,136	(3,571)
Other local revenues.....	384,934	541,491	156,557	1,673	1,368	(305)
Other revenue .....					1,000	1,000
Intergovernmental - State.....	2,866,750	3,183,066	316,316	1,856,354	1,565,871	(290,483)
Intergovernmental - Federal.....				3,363,982	3,977,697	613,715
Total revenues.....	<u>3,303,387</u>	<u>3,781,726</u>	<u>478,339</u>	<u>5,331,683</u>	<u>5,640,351</u>	<u>308,668</u>
Expenditures:						
Current:						
Instruction:						
Regular.....	209,388	209,388	0			
Special.....	227,723	227,723	0	943,690	943,690	0
Support services:						
Pupil.....	811,208	811,208	0	2,087,812	2,087,812	0
Instructional staff.....	1,093,831	1,093,831	0	999,976	999,976	0
Governing Board.....	17,190	17,190	0			
Administration.....	763,016	763,016	0	495,028	495,028	0
Fiscal.....	70,782	70,782	0	108,367	108,367	0
Operations and maintenance.....	104,667	104,667	0	608,738	608,738	0
Pupil transportation.....	105,717	105,717	0	574,595	574,595	0
Central.....	543,652	543,652	0	29,527	29,527	0
Total expenditures.....	<u>3,947,174</u>	<u>3,947,174</u>	<u>0</u>	<u>5,847,733</u>	<u>5,847,733</u>	<u>0</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(643,787)</u>	<u>(165,448)</u>	<u>478,339</u>	<u>(516,050)</u>	<u>(207,382)</u>	<u>308,668</u>
Other financing sources (uses):						
Refund of prior year's (expenditure)....	(1,450)	(1,450)	0		1,551	1,551
Operating transfers in.....				33,119	12,542	(20,577)
Operating transfers (out).....	(110,232)	(110,232)	0	(94)	(94)	0
Advances in.....	96,022	96,022	0			
Advances (out).....				(14,265)	(14,265)	0
Proceeds of sale of fixed assets.....				14,375		(14,375)
Total other financing sources (uses)...	<u>(15,660)</u>	<u>(15,660)</u>	<u>0</u>	<u>33,135</u>	<u>(266)</u>	<u>(33,401)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses).	<u>(659,447)</u>	<u>(181,108)</u>	<u>478,339</u>	<u>(482,915)</u>	<u>(207,648)</u>	<u>275,267</u>
Fund balances, July 1.....	457,051	457,051	0	124,229	124,229	0
Prior year encumbrances appropriated.....	<u>105,873</u>	<u>105,873</u>	<u>0</u>	<u>82,570</u>	<u>82,570</u>	<u>0</u>
Fund balances, June 30.....	<u>(\$96,523)</u>	<u>\$381,816</u>	<u>\$478,339</u>	<u>(\$276,116)</u>	<u>(\$849)</u>	<u>\$275,267</u>

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

Capital Projects			Total (Memorandum only)		
Budget Revised	Actual	Variance: Favorable (Unfavorable)	Budget Revised	Actual	Variance: Favorable (Unfavorable)
			\$94,967	\$83,279	(\$11,688)
			66,410	68,305	1,895
\$20,700	\$5,001	(\$15,699)	407,307	547,860	140,553
			0	1,000	1,000
0	0	0	4,723,104	4,748,937	25,833
			3,363,982	3,977,697	613,715
<u>20,700</u>	<u>5,001</u>	<u>(15,699)</u>	<u>8,655,770</u>	<u>9,427,078</u>	<u>771,308</u>
			209,388	209,388	0
			1,171,413	1,171,413	0
0	0		2,899,020	2,899,020	0
			2,093,807	2,093,807	0
0	0		17,190	17,190	0
			1,258,044	1,258,044	0
0	0		179,149	179,149	0
0	0		713,405	713,405	0
			680,312	680,312	0
			573,179	573,179	0
			<u>9,794,907</u>	<u>9,794,907</u>	<u>0</u>
<u>20,700</u>	<u>5,001</u>	<u>(15,699)</u>	<u>(1,139,137)</u>	<u>(367,829)</u>	<u>771,308</u>
			(1,450)	101	1,551
			33,119	12,542	(20,577)
			(110,326)	(110,326)	0
			96,022	96,022	0
0	0		(14,265)	(14,265)	0
			14,375	0	(14,375)
			<u>17,475</u>	<u>(15,926)</u>	<u>(33,401)</u>
20,700	5,001	(15,699)	(1,121,662)	(383,755)	737,907
8,753	8,753	0	590,033	590,033	0
			188,443	188,443	0
<u>\$29,453</u>	<u>\$13,754</u>	<u>(\$15,699)</u>	<u>(\$343,186)</u>	<u>\$394,721</u>	<u>\$737,907</u>

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**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 1 - DESCRIPTION OF THE ENTITY**

The Butler County Educational Service Center (the "ESC") is the successor to the former Butler County Board of Education. 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 5 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 201 non-certificated employees and 34 certificated employees (including administrative) to provide services to approximately 46,513 students in 9 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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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

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, it has been included in the ESC's financial statements as an agency fund. 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.

***JOINTLY GOVERNED ORGANIZATION***

*Southwest Ohio Computer Association (SWOCA)*

SWOCA is a jointly governed organization among 28 school districts. The 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 12 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.



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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

The ESC also participates in two group purchasing pools for insurance, described in Note 10.

**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.

*Capital Projects Funds* - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds).

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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

*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.

*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 60 days after the June 30 year-end. Revenues accrued at the end of the year include interest and amounts due from other governments.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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

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

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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

**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 2001 in the following amounts:

	Increase/(Decrease)
General Fund	\$ 796,995
Special Revenue	2,113,898
Capital Projects	(15,000)
Expendable Trust	5,799
Agency	<u>3,153,170</u>
 Total, All Funds	 <u><u>\$6,054,862</u></u>

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 13 provides a reconciliation of the budgetary and GAAP basis of accounting.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**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 described in Note 2.A., the ESC does not operate an external investment pool, because interest revenue is not allocated to these Agency funds.

During 2001, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio).

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. 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, 2001.

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 funds were credited with more interest revenue than would have been received based upon their 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	\$56,454	\$29,184	\$27,270
<u>Special Revenue Fund</u>			
Head Start	10,995	3,649	7,346

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

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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

**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. Short-Term Interfund Receivables/Payables**

At June 30, 2001 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.

**H. 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 50 or greater with at least 10 years of service and/or 20 years' service regardless of age were considered expected to retire in accordance with GASB Statement No. 16.

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

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.

**I. 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.

**J. 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.

**K. 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.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

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 2001, is presented in Note 5.

**L. Prepayments**

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.

**M. Estimates**

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



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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**

**N. 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.

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

**A. Change in Accounting Principle**

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, was implemented during fiscal 2001. This statement pertains to the financial reporting of certain types of revenue received by the District for which no value is given in return, including derived tax revenues, imposed nonexchange transactions, government-mandated nonexchange transactions, and voluntary nonexchange transactions. The adoption of this statement had no effect on fund balances/retained earnings as previously reported by the District at June 30, 2000.

**B. Accountability and Compliance**

i. Deficit Fund Balances

Fund balances at June 30, 2001, included the following individual fund deficits:

	<u>Deficit Balance</u>
<u>Special Revenue Funds</u>	
Head Start	\$(126,492)
Technical Assistance Grant	(48)
Miscellaneous State Grants	(13,273)
Economic Opportunity Grant	(234,673)
PS/SE Indicators of Success	(1,052)

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 3 - CHANGES IN FINANCIAL STATEMENT PRESENTATION AND OTHER  
FUND DISCLOSURES - (Continued)**

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

- ii. The District failed to obtain the certificate of availability of funds of the fiscal officer prior to the commitment being made for some expenditures, contrary to ORC Section 5705.41(D).

**C. Agency Funds**

Agency funds are accounted for on a cash basis. If the agency funds had followed the modified accrual basis of accounting \$66,779 would have been recognized as a receivable and offsetting liability.

**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.

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.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

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

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 2% and be marked to market daily, and that the term of the agreement must not exceed 30 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 180 days from the date of purchase in an amount not to exceed 25% of the interim moneys available for investment at any one time; and,

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 4 - EQUITY IN POOLED CASH AND INVESTMENTS - (Continued)**

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 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 \$(4,110) and the bank balance was \$175,921 (both exclusive of payroll clearance accounts). Of the bank balance:

1. \$100,000 was covered by federal deposit insurance.
2. \$75,921 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.

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

	<u>Fair Value</u>
Not Subject to Categorization:	
Investment in State Treasurer's	
Investment Pool	<u>\$1,312,647</u>
Total Investments	<u><u>\$1,312,647</u></u>

A reconciliation between the classifications of cash, 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	\$ 1,308,537	
Investments of the Cash		
Management Pool:		
State Treasurer's Investment Pool	<u>(1,312,647)</u>	<u>\$1,312,647</u>
GASB Statement No. 3	<u>\$ (4,110)</u>	<u>\$1,312,647</u>

**NOTE 5 - INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2001 consist of the following individual interfund loans receivable and/or payable:

	<u>Interfund Loans Receivable</u>	<u>Interfund Loans (Payable)</u>
General Fund	\$110,232	
<u>Special Revenue Funds</u>		
Miscellaneous State Grants		\$ (11,397)
EHA Preschool Grant		<u>(1,052)</u>
Total Special Revenue Funds		(12,449)
<u>Agency Funds</u>		
District Agency	<u>                    </u>	<u>(97,783)</u>
Total All Fund Types	<u>\$110,232</u>	<u>\$(110,232)</u>

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**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2001, consisted primarily of accounts (tuition), investment earnings and intergovernmental grants and entitlements (to the extent such grants and entitlements relate to the current fiscal year). 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>	
Accrued Interest	\$ 4,096
 <u>Special Revenue Funds</u>	
Accounts receivable	32,150
Due from other governments	25,681

**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, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2001</u>
Furniture/Equipment	\$ 780,407	\$ 76,356		\$ 856,763
Vehicles	<u>468,689</u>	<u>156,367</u>	<u>        </u>	<u>625,056</u>
Total	<u>\$1,249,096</u>	<u>\$232,723</u>	<u>\$ 0</u>	<u>\$1,481,819</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.

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**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 the amount of \$9,676, which is equal to the present value of the future minimum 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 2001 fiscal year totaled \$4,093. This amount is reflected as debt service principal retirement in the General fund and consists of the principal payments due in 2001 and 2002 fiscal years, which liquidated the lease liability.

**NOTE 9 - LONG-TERM OBLIGATIONS**

During the year ended June 30, 2001, 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</u> <u>July 1, 2000</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2001</u>
Compensated Absences:				
Severance	\$30,116	\$21,718	\$ (4,194)	\$47,640
Vacation	25,544	47,715	(41,086)	32,173
Capital Leases	<u>4,093</u>	<u>          </u>	<u>(4,093)</u>	<u>0</u>
<b>TOTAL</b>	<u><u>\$59,753</u></u>	<u><u>\$69,433</u></u>	<u><u>\$(49,373)</u></u>	<u><u>\$79,813</u></u>

**NOTE 10 - 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 2001, 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.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 10 - RISK MANAGEMENT- (Continued)**

*OSBA WORKER'S COMPENSATION GROUP RATING*

For fiscal year 2001, the ESC participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The intent of the GRP is to achieve the benefit of a reduced premium for the ESC 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 of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**NOTE 11 - 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 defined benefit pension plan. SERS provides basic retirement and disability benefits, cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634.



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**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

Plan members are required to contribute 9% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which was 14% for 2001; 4.2% was the portion to fund pension obligations. The contribution rates of plan members and employers are established and may be amended by the School Employees Retirement Board, up to maximum amounts 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, 2001, 2000, and 1999 were \$711,230, \$586,925, and \$522,314, respectively; 89% has been contributed for fiscal year 2001, and 100% for the fiscal years 2000 and 1999. \$76,709, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

**B. 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% of their annual covered salary and the ESC is required to contribute 14%; 9.5% 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% for members and 14% for employers. The ESC's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2001, 2000, and 1999 were \$264,061, \$199,105, and \$170,712, respectively; 90% has been contributed for fiscal year 2001, and 100% for the fiscal years 2000 and 1999. \$27,166, which represents the unpaid contribution for fiscal year 2001, is recorded as a liability within the respective funds.

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NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
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**NOTE 11 - DEFINED BENEFIT PENSION PLANS - (Continued)**

**C. Social Security System**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, members of the Governing Board have elected Social Security. The Board's liability is 6.2% of wages paid.

**NOTE 12 - 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.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the Board allocated employer contributions equal to 4.5% of covered payroll to the Health Care Reserve Fund. For the District, this amount equaled \$121,851 during fiscal 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Health Care Reserve Fund was \$3.419 billion at June 30, 2000 (the latest information available). For the year ended June 30, 2000, net health care costs paid by STRS were \$283.137 million and there were 99,011 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more fiscal years of qualifying service credit, disability, and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than 25 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% of the premium.

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**NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)**

For this fiscal year, employer contributions to fund health care benefits were 9.8% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. The surcharge, added to the unallocated portion of the 14% 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% of annual health care expenses. Expenses for health care at June 30, 2000 (the latest information available), were \$140.7 million and the target level was \$211.0 million. At June 30, 2000, SERS had net assets available for payment of health care benefits of \$252.3 million and there were approximately 50,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$453,319 during the 2001 fiscal year.

**NOTE 13 - 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).

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001

**NOTE 13 - 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:

	Governmental Fund Types		
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>
Budget Basis	\$(181,108)	\$(207,648)	\$5,001
Net Adjustment for Revenue Accruals	(125,726)	35,891	
Net Adjustment for Expenditure Accruals	(90,195)	(91,406)	
Net Adjustment for Other Financing Sources (Uses)	15,660	266	
Net Adjustment for Fund Reclassification		(892)	
Encumbrances (Budget Basis)	<u>51,204</u>	<u>143,450</u>	<u>      </u>
GAAP Basis	<u>\$(330,165)</u>	<u>\$(120,339)</u>	<u>\$5,001</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 14 - 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, 2001.

**B. Litigation**

As of the balance sheet date, the District was not involved in any litigation as either defendant or plaintiff.

**NOTE 15 - SUBSEQUENT EVENT - SCHOOL FUNDING DECISION**

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

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

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY, OHIO**

**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001**

**NOTE 15 - SUBSEQUENT EVENT - SCHOOL FUNDING DECISION - (Continued)**

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 31, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, the ESC is unable to determine the effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2001**

<b>FEDERAL GRANTOR/ Pass Through Grantor Program Title</b>	<b>Pass Through Entity Number</b>	<b>Federal CFDA Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b><u>U.S. DEPARTMENT OF AGRICULTURE</u></b>				
<i>Passed Through Ohio Department of Education:</i>				
Child Care and Adult Care Food Program	21-ML	10.558	<u>\$275,348</u>	<u>\$275,348</u>
Total U.S. Department of Agriculture			<u><b>275,348</b></u>	<u><b>275,348</b></u>
<b><u>U.S. DEPARTMENT OF EDUCATION</u></b>				
Head Start		93.600	<u>3,693,995</u>	<u>3,661,810</u>
Total U.S. Department of Education			<u><b>3,693,995</b></u>	<u><b>3,661,810</b></u>
<b>Totals</b>			<u><b>\$3,969,343</b></u>	<u><b>\$3,937,158</b></u>

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2001**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The accompanying Schedule of Federal Awards Expenditures (the Schedule) is a summary of the activity of the Service Center's federal awards programs. The Schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain Federal programs require that the Service Center 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

JIM PETRO, AUDITOR OF STATE

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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 year ended June 30, 2001, and have issued our report thereon dated January 31, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Service Center's 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10409-001.

**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 other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated January 31, 2002.

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

This report is intended for the information and use of the audit committee, management, 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 31, 2002



STATE OF OHIO  
OFFICE OF THE AUDITOR

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**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 year ended June 30, 2001. 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 its major federal program is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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 year ended June 30, 2001.

**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, 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 31, 2002

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER  
BUTLER COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2001**

**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)?	Yes
(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):	Head Start
(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**

**FINDING NUMBER 2001-10409-01**

**Noncompliance Citation - Failure to Properly Encumber Funds**

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

This Section also provides for two exceptions to the above requirements:

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

Of the transactions tested, 20% were not properly encumbered.

Ohio Rev. Code, Section 5705.41(D), allows for fiscal officers to use blanket certificates not exceeding \$5,000 for a period of not more than three months or beyond fiscal year-end. The Service Center had seven blanket purchase orders exceeding \$5,000, seven had a term of more than three months, and three extended beyond the fiscal year-end.

The Service Center should utilize "super" blanket purchase orders for recurring and predictable operating expenses over \$5,000 during the year. All "super" blanket purchase orders should be closed at the end of the fiscal year.

**3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

None



STATE OF OHIO  
OFFICE OF THE AUDITOR  

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**BUTLER COUNTY 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  
MARCH 5, 2002**