

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Basic Financial Statements

Year Ended June 30, 2004

With

Independent Auditors' Report





**Auditor of State  
Betty Montgomery**

Board of Education  
Butler County Educational Service Center  
1910 Fairgrove Ave.  
Hamilton, OH 45011

We have reviewed the Independent Auditor's Report of the Butler County Educational Service Center, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

*Betty Montgomery*

BETTY MONTGOMERY  
Auditor of State

February 14, 2005

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# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	13
Statement of Net Assets – Fiduciary Funds	14
Statement of Changes in Fiduciary Net Assets – Private Purpose Trust	15
Notes to Basic Financial Statements	16 – 31
Required Supplementary Information:	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget-Actual (Non-GAAP Budgetary Basis) – General Fund	32
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget-Actual (Non-GAAP Budgetary Basis) – Federal Head Start Fund	33
Notes to Required Supplementary Information	34
Additional Information:	
Schedule of Expenditures of Federal Awards	35
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36 - 37
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	38 – 39
Schedule of Findings and Questioned Costs	40
Schedule of Prior Audit Findings	41

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Clark, Schaefer, Hackett & Co.  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

To the Board of Education  
Butler County Educational Service Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Service Center as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2 to the basic financial statements, the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for States and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*; and GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2004 on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 9 and 32 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards 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 basic financial statements of the Service Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Clark, Schaefer, Hachtel & Co.*

Cincinnati, Ohio  
December 10, 2004



## MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This discussion and analysis provides key information from management highlighting the overall financial performance of the Butler County Educational Service Center (ESC) for the year ended June 30, 2004. This is meant to be an easily readable summary of the most important financial information regarding the accompanying financial statements. Please read it in conjunction with the ESC's financial statements.

### Financial Highlights

Major financial highlights for fiscal year 2004 are listed below:

- ✓ The assets of the ESC exceeded its liabilities at year-end by \$2.2 million. Of this amount, \$1.7 million is restricted.
- ✓ In total, net assets decreased by \$.6 million.
- ✓ The ESC had \$11.2 million in expenses related to governmental activities; only \$6.9 million of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$3.7 million, made up primarily of State Foundation payments provided significant funding for these programs.
- ✓ The General Fund balance increased by \$104,302 from \$180,762 at June 30, 2003 to \$285,064 at June 30, 2004.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the ESC's basic financial statements. The ESC's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the ESC's finances in a manner similar to a private-sector business.

The statement of net assets presents information on all of the ESC's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the ESC is improving or deteriorating.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**  
**Unaudited**

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The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years (e.g. earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the ESC that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the ESC include instruction, support services, administration and operation and maintenance of plant. The ESC has no business-type activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The ESC uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the ESC can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for government activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between government funds and governmental activities.

The ESC accounts for its activities using many individual funds. The most significant funds are reported in separate columns in the governmental fund financial statements. These statements provide detailed information about the individual major funds – unlike the government-wide financial statements, which report on the ESC as a whole. Some funds are required to be established by State law. Also, the ESC may also establish separate funds to show that it is meeting legal requirements for using grants or other money.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the ESC's own programs.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**  
**Unaudited**

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to basic financial statements and accompanying notes, this report also contains required supplementary information concerning the budget of the General Fund and the Federal Head Start special revenue fund..

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**A. Net assets at year-end**

The following table presents a condensed summary of the ESC's overall financial position at June 30, 2004:

		<b>Governmental Activities</b>
Current and other assets	\$	2,997,517
Capital assets		<u>389,089</u>
Total assets		<u>3,386,606</u>
Long-term debt outstanding		316,407
Other liabilities		<u>820,413</u>
Total liabilities		<u>1,136,820</u>
Net assets:		
Invested in capital assets, net of debt		389,089
Restricted:		
Other purposes		1,672,409
Unrestricted		<u>188,288</u>
Total net assets	\$	<u><u>2,249,786</u></u>

Since this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not presented. However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets. Refer to the following section for discussion of the reasons for the change in net assets during the year.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**  
**Unaudited**

**B. Governmental Activities during fiscal year 2004**

The following table presents a condensed summary of the ESC's activities during fiscal year 2004 and the resulting change in net assets:

	<b>Governmental Activities</b>
<b>Revenues:</b>	
Program revenues:	
Charges for services and sales	\$ 2,000,485
Operating grants and contributions	4,876,162
Total program revenues	<u>6,876,647</u>
General revenues:	
Grants and entitlements	3,474,537
Investment earnings	10,933
Miscellaneous	242,498
Total general revenues	<u>3,727,968</u>
<b>Total revenues</b>	<u>10,604,615</u>
<b>Expenses:</b>	
Instruction	1,757,552
Support services:	
Pupil	2,997,786
Instructional staff	2,568,994
Board of Education	9,209
Administration	1,450,102
Fiscal	170,812
Operation and maintenance of plant	767,227
Pupil transportation	570,354
Central	885,017
<b>Total expenses</b>	<u>11,177,053</u>
<b>Change in net assets</b>	<u>\$ (572,438)</u>

Of the total governmental activities revenues of \$10,604,615, \$6,876,647 (65%) is from program revenue. This means that the government relies on general revenues to fund a significant portion of the cost of services provided to the citizens. Of those general revenues, \$3,474,537 (93%) is from state funding. The ESC's operations are reliant upon the state's foundation program.

Because this is the first year to report all activities using the accrual basis of accounting, a comparison to the prior year is not presented. However, in future years, this section will explain the differences between the current- and prior-year assets, liabilities, and changes in net assets.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**  
**Unaudited**

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***Governmental Activities***

The following table presents the total cost of each of the government's primary services, and the comparative net cost after deducting the revenues generated by each function. Approximately 62% of the cost of the general government programs was recouped in program revenues. Support services costs were \$9,419,501 but program revenue contributed to fund 60% of those costs. Thus, general revenues of \$3,743,947 were used to support of remainder of the instruction costs.

The ESC's governmental activities net assets decreased by (\$572,438) due primarily to reduced intergovernmental funding.

<b>Governmental Activities</b>					
		<b><u>Total Cost of Services</u></b>	<b><u>Program Revenue</u></b>	<b><u>Revenues as a % of Total Costs</u></b>	<b><u>Net Cost of Services</u></b>
Instruction	\$	1,757,552	1,201,093	68%	556,459
Support services		<u>9,419,501</u>	<u>5,675,554</u>	60%	<u>3,743,947</u>
<b>Total</b>	<b>\$</b>	<b><u>11,177,053</u></b>	<b><u>6,876,647</u></b>	<b><u>62%</u></b>	<b><u>4,300,406</u></b>

**FINANCIAL ANALYSIS OF THE ESC'S INDIVIDUAL FUNDS**

**Governmental funds**

The ESC has two major governmental funds: the General Fund and Federal Head Start Fund. Assets of these two funds comprise \$2,862,177 (95%) of the total \$3,012,816 governmental funds assets.

**General Fund.** Fund balance at June 30, 2004 was \$285,064, with an unreserved fund balance of \$156,784. The fund balance increased by \$52,056. The unreserved fund balance represents approximately 3% of current-year general fund expenditures.

**Federal Head Start Fund.** This fund is used to account for the activity related to the federal grant for the Head Start program. The fund balance at June 30, 2004 will be used to meet program requirements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**  
**Unaudited**

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**GENERAL FUND BUDGETARY HIGHLIGHTS**

The schedule comparing the ESC's original and final budgets and actual results is included in the required supplementary information. There were no significant differences between the original and final budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2004, the ESC had \$389,089 invested in capital assets, including furniture, equipment and vehicles. See Note 5 to the financial statements for more detail.

**Capital Assets at Year-End  
(Net of Depreciation)**

		<b>Governmental <u>Activities</u></b>
Equipment and furniture	\$	315,128
Vehicles		<u>73,961</u>
Total	\$	<u><u>389,089</u></u>

**ECONOMIC FACTORS**

A challenge facing the ESC is the future of state funds. On December 11, 2002, the Court found the state's school funding system unconstitutional but declined to retain jurisdiction of the matter meaning the decision included no timeline for compliance or accountability for lack of compliance. The ESC is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

At the time of this report, H.B. 567 is being introduced for the proposal of the Ohio Regional Delivery System. The Ohio Department of Education is also researching a model of similar proportion. The ESC is unable to determine what effect, if any, this legislation will have on its future State funding and on its financial operations.

The Butler County Commissioners charge the Educational Service Center for office space. We are in the third year of a five year phase in during which the ESC will become responsible for 100% of the total cost of office space. We are currently paying 60%. The cost will continue to increase 20% through fiscal year 2007.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2004**  
**Unaudited**

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**REQUESTS FOR ADDITIONAL INFORMATION**

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the ESC's finances and to show the ESC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's office at the Butler County Educational Service Center, 1910 Fairgrove Avenue, Suite B, Hamilton, Ohio 45011.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

## Statement of Net Assets

June 30, 2004

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 678,596
Receivables:	
Accounts	140,503
Intergovernmental	2,160,253
Prepays	18,165
Depreciable capital assets, net	<u>389,089</u>
<b>Total assets</b>	<u>3,386,606</u>
<b>Liabilities:</b>	
Accounts payable	19,193
Accrued wages and benefits	659,355
Intergovernmental payable	141,865
Noncurrent liabilities:	
Due within one year	39,124
Due within more than one year	<u>277,283</u>
<b>Total liabilities</b>	<u>1,136,820</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	389,089
Restricted for:	
Other purposes	1,672,409
Unrestricted	<u>188,288</u>
<b>Total net assets</b>	<u>\$ 2,249,786</u>

See accompanying notes to the basic financial statements.



## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities  
Year Ended June 30, 2004

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 202,472	81,173	-	\$ (121,299)
Special education	1,555,080	267,403	852,517	(435,160)
Support services:				
Pupil	2,997,786	493,598	1,564,520	(939,668)
Instructional staff	2,568,994	608,704	1,007,065	(953,225)
Board of Education	9,209	-	-	(9,209)
Administration	1,450,102	101,438	451,540	(897,124)
Fiscal	170,812	-	26,706	(144,106)
Operation and maintenance of plant	767,227	67,689	523,586	(175,952)
Pupil transportation	570,354	26,358	440,538	(103,458)
Central	<u>885,017</u>	<u>354,122</u>	<u>9,690</u>	<u>(521,205)</u>
Total Governmental Activities	\$ <u>11,177,053</u>	<u>2,000,485</u>	<u>4,876,162</u>	<u>(4,300,406)</u>
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs				3,474,537
Investment earnings				10,933
Miscellaneous				<u>242,498</u>
Total general revenues				<u>3,727,968</u>
Change in net assets				(572,438)
Net assets beginning of year				<u>2,822,224</u>
Net assets end of year				\$ <u><u>2,249,786</u></u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Balance Sheet  
 Governmental Funds  
 June 30, 2004

	<u>General</u>	<u>Federal Head Start</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>				
Equity in pooled cash and investments	\$ 498,202	41,829	138,565	678,596
Receivables:				
Accounts	140,503	-	-	140,503
Intergovernmental	-	2,150,960	9,293	2,160,253
Prepays	3,527	11,857	2,781	18,165
Interfund receivable	15,299	-	-	15,299
<b>Total assets</b>	<u>657,531</u>	<u>2,204,646</u>	<u>150,639</u>	<u>3,012,816</u>
<b>Liabilities:</b>				
Accounts payable	14,080	3,242	1,871	19,193
Accrued wages and benefits	323,818	268,824	66,713	659,355
Intergovernmental payable	34,569	85,569	21,727	141,865
Interfund payable	-	-	15,299	15,299
Deferred revenue	-	1,530,426	-	1,530,426
<b>Total liabilities</b>	<u>372,467</u>	<u>1,888,061</u>	<u>105,610</u>	<u>2,366,138</u>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances	124,753	86,119	20,405	231,277
Prepays	3,527	11,857	2,781	18,165
Unreserved, reported in:				
General Fund	156,784	-	-	156,784
Special Revenue Funds	-	218,609	21,843	240,452
<b>Total fund balances</b>	<u>285,064</u>	<u>316,585</u>	<u>45,029</u>	<u>646,678</u>
<b>Total liabilities and fund balances</b>	<u>\$ 657,531</u>	<u>2,204,646</u>	<u>150,639</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	389,089
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.	1,530,426
Long-term liabilities for compensated absences are not due and payable in the current period and therefore are not reported in the funds.	<u>(316,407)</u>
Net assets of governmental activities	<u>\$ 2,249,786</u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2004

	General	Federal Head Start	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Contractual services	\$ 1,920,476	-	-	1,920,476
Tuition and fees	-	-	80,009	80,009
Interest	10,933	-	-	10,933
Intergovernmental	3,378,440	4,642,070	1,030,124	9,050,634
Other local revenues	<u>209,350</u>	<u>-</u>	<u>33,148</u>	<u>242,498</u>
<b>Total revenues</b>	<u>5,519,199</u>	<u>4,642,070</u>	<u>1,143,281</u>	<u>11,304,550</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	188,472	-	-	188,472
Special education	579,209	762,360	198,304	1,539,873
Support services:				
Pupil	1,162,919	1,485,962	327,923	2,976,804
Instructional staff	1,366,452	893,205	244,595	2,504,252
Board of Education	9,209	-	-	9,209
Administration	896,985	411,130	85,979	1,394,094
Fiscal	143,381	-	24,406	167,787
Operation and maintenance of plant	155,280	505,239	81,464	741,983
Pupil transportation	63,070	439,708	53,779	556,557
Central	<u>849,920</u>	<u>12,829</u>	<u>11,245</u>	<u>873,994</u>
<b>Total expenditures</b>	<u>5,414,897</u>	<u>4,510,433</u>	<u>1,027,695</u>	<u>10,953,025</u>
Net change in fund balance	104,302	131,637	115,586	351,525
Fund balance, beginning of year	<u>180,762</u>	<u>184,948</u>	<u>(70,557)</u>	
Fund balance, end of year	<u>\$ 285,064</u>	<u>316,585</u>	<u>45,029</u>	

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Capital outlay	47,712
Depreciation expense	(124,863)

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (141,154)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (699,935)

Losses on disposals of capital assets are not reported in the funds. (5,723)

Change in Net Assets of Governmental Activities \$ (572,438)

See accompanying notes to the basic financial statements.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Assets

Fiduciary Funds

June 30, 2004

	Private Purpose Trusts	Agency Funds
<b>ASSETS</b>		
Equity in pooled cash and investments	\$ 31,587	502,408
Intergovernmental receivable	-	23,967
Total assets	<u>31,587</u>	<u>526,375</u>
<b>LIABILITIES</b>		
Accounts payable	-	109,271
Due to other governments	-	417,104
Total liabilities	<u>-</u>	<u>526,375</u>
<b>NET ASSETS</b>		
Held in trust	\$ <u>31,587</u>	

See accompanying notes to the basic financial statements.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2004

		<u>Private- Purpose Trust Funds</u>
<b>Additions:</b>		
Contributions	\$	2,703
Interest income		<u>308</u>
Total additions		<u>3,011</u>
 <b>Deductions:</b>		
Community gifts, awards and scholarships		<u>2,188</u>
Total deductions		<u>2,188</u>
 Change in net assets		 823
 Net assets, beginning of year		 <u>30,764</u>
Net assets, end of year	\$	<u><u>31,587</u></u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Butler County Educational Service Center (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 also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 in its government-wide financial statements provided they do not conflict with or contradict GASB pronouncements. The ESC has the option to follow subsequent FASB statements and interpretations but has elected not to do so. The more significant of the ESC's accounting policies are described below.

**A. Reporting Entity**

Butler County Educational Service Center 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 ESCs and abolished county school districts. That legislation also changed the "Board of Education" to the "Governing Board".

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 provides services to approximately 50,000 students in nine school districts throughout the County.

The reporting entity is comprised of the primary government, which consists of all funds, departments, boards, and agencies that are not legally separate from the ESC. This includes general and preschool operations. Component units are legally separate organizations for which the ESC is financially accountable. The ESC is financially accountable for an organization if the ESC appoints a voting majority of the organization's governing board and (1) the ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) the ESC is legally entitled to or can otherwise access the organization's resources; the ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the ESC in that the ESC approves the budget, the issuance of debt, or the levying of taxes. The ESC has no component units.

The ESC serves as the 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 for either organization, so these activities 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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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The ESC is associated with three organizations, two of which are defined as insurance purchasing pools and one is a jointly governed organization. These organizations are the Southwest Ohio Computer Association, the Butler County Health Plan, and the Ohio School Boards Association Workers' Compensation Group Rating Plan. The organizations are presented in Notes 10 and 11 to the general purpose financial statements.

**B. Basis of Presentation**

***Government-wide Financial Statements*** The statement of net assets and the statement of activities display information about the ESC as a whole. These statements include the financial activities of the primary government except for fiduciary funds. The statements distinguish between those activities of the ESC that are governmental and those that are considered business-type activities. The ESC has no business-type activities.

The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which the governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

***Fund Financial Statements*** Fund financial statements report detailed information about the ESC. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**C. Fund Accounting**

The ESC uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain ESC functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the ESC are grouped into the categories governmental and fiduciary.

*Governmental funds* focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the ESC's major governmental funds:

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

*Federal Head Start Fund* – This fund is used to account for the Federal Head Start grant.

*Fiduciary Funds* report on net assets and changes in net assets. The ESC's fiduciary funds consist of private-purpose trust funds and agency funds. The ESC's private-purpose trust funds account for scholarship programs. These assets are not available for the ESC's use. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

**D. Basis of Accounting**

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

The modified accrual basis of accounting is used by the governmental funds and agency funds. On a modified accrual basis, revenues are recorded when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the ESC is sixty days after fiscal year end. Under the modified accrual basis, the following revenue sources are deemed both measurable and available: interest, accounts and grants.

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



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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Government-wide financial statements are prepared using the accrual basis of accounting. Also, private-purpose trust funds utilize accrual accounting. Revenues are recognized when earned and expenses are recognized when incurred.

***Revenues - Exchange and Non-exchange transactions.*** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Non-exchange transactions, in which the ESC receives value without directly giving 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 ESC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the ESC on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

***Deferred Revenue*** Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria recognition in the current period. In the subsequent period, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

**E. Budgetary Process**

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. 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. 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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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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.

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 2004.

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, compared to encumbrances outstanding at year-end reported as expenditures on the budget basis of accounting

**F. Cash and Cash Equivalents**

To improve cash management, all cash received by the ESC is pooled in central bank accounts. Monies for all funds are maintained in this pool and individual fund integrity is maintained through ESC records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Investments" on the balance sheet.

During fiscal year 2004, investments were limited to the State Treasury Asset Reserve of Ohio (STAROhio). STAROhio is an investment pool managed by the State Treasurer's Office that allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on June 30, 2004.

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 private-purpose trust fund in accordance with Board policy.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**G. Capital Assets and Depreciation**

Capital assets, which include property, plant and equipment, are reported in the government-wide financial statements. The ESC defines capital assets as those with an individual cost of more than \$500 and an estimated useful life in excess of one year. All capital assets are capitalized at cost or estimated historical cost where no historical records exist. Donated capital assets are recorded at their estimated fair values as of the date received. The ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

When capital assets are purchased, they are capitalized and depreciated in the government-wide statements. Capital assets are reported as expenditures of the current period in the governmental fund financial statements.

All reported capital assets are depreciated. Depreciation is computed using the straight-line method over the following useful lives:

Vehicles	10 years
Equipment and furniture	5 years

**H. 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 benefiting from the advance payment. At period-end, because prepaid expenses 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.

**I. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the ESC will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the ESC has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the ESC's termination policy.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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For governmental funds, the ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. 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.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, a liability is recorded only if they have matured, for example, as a result of employee resignations and retirements.

**J. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources with the exception of compensated absences as noted above.

**K. Interfund Transactions**

On fund financials, receivables and payables resulting from short-term interfund loans are classified as "interfund receivable/payable." These amounts are eliminated in the governmental activities column of the statement of net assets.

**L. Fund Balance Reserves**

The ESC records reservations for portions of fund equity that are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balances indicates that portion of fund equity that is available for appropriation in future periods. Fund equity reserves are established for encumbrances and prepaid assets.

**M. Net Assets**

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

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**N. Estimates**

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

**O. Fund Deficit**

At June 30, 2004, the Head Start Fund (State) had a deficit fund balance of \$36,335. The deficit fund balance was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

**2. CHANGE IN ACCOUNTING PRINCIPLES**

For fiscal year 2004, the ESC implemented the following:

- GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments.*
- GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments: Omnibus.*
- GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*
- GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*
- GASB Interpretation No. 6, *Recognition and Measurements of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

GASB 34 creates new basic financial statements for reporting on the ESC's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The beginning net asset amount for governmental activities reflects the change in net assets at June 30, 2003 caused by the conversion to the accrual basis of accounting:

Fund balance - all governmental funds - June 30, 2003	\$	295,153
GASB 34 adjustments:		
Capital assets		471,963
Long-term liabilities		(175,253)
Revenue recognition		2,230,361
		<hr/>
Governmental activities net assets - June 30, 2003	\$	<u><u>2,822,224</u></u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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

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

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 monies deposited with the institution. Interim monies are permitted to be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by the federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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6. The State Treasurer's investment pool (STAROhio).
7. Commercial paper notes issued by any corporation for profit that is incorporated under the laws of the United States or any state pursuant to specifications within Ohio Revised Code.
8. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations meet specifications within Ohio Revised Code.

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, 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 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements".

Deposits: At year end the carrying amount of the ESC's deposits was \$505,354 . The bank balance was \$812,782 of which \$100,000 was covered by depository insurance. The remaining bank balance was covered by collateral held by third party trustees pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions, but not in the ESC's name.

Investments: The ESC's investments are categorized below 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 which are held by the counter party'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 counter party, or by its trust department or agent but not in the ESC's name. The ESC's investment in STAROhio is unclassified because it is not evidenced by securities that exist in physical or book entry form. The fair value of the ESC's investment in STAR Ohio is \$707,237 at June 30, 2004.

#### **4. INTERFUND TRANSACTIONS**

Interfund balances at June 30, 2004 consist of an interfund loan receivable in the General Fund due from other non-major governmental funds.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**5. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance 7/1/03	Additions	Disposals	Balance 6/30/04
<i><b>Governmental Activities</b></i>				
Equipment and furniture	\$ 1,317,738	14,511	(90,323)	1,241,926
Vehicles	501,189	33,201	-	534,390
Totals at historical cost	<u>1,818,927</u>	<u>47,712</u>	<u>(90,323)</u>	<u>1,776,316</u>
Less accumulated depreciation:				
Equipment and furniture	908,448	102,950	(84,600)	926,798
Vehicles	438,516	21,913	-	460,429
Total accumulated depreciation	<u>1,346,964</u>	<u>124,863</u>	<u>(84,600)</u>	<u>1,387,227</u>
Capital assets, net	<u>\$ 471,963</u>	<u>(77,151)</u>	<u>(5,723)</u>	<u>389,089</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 10,530
Special	3,886
Support services:	
Pupil	1,933
Instructional staff	110
School administration	27,006
Fiscal	2,554
Operation and maintenance of plant	25,069
Pupil transportation	44,205
Central	<u>9,570</u>
Total depreciation expense	<u>\$ 124,863</u>

**6. RISK MANAGEMENT**

The ESC maintains comprehensive insurance with private carriers for real property, building contents, vehicles and general liability insurance. Vehicle policies include liability coverage for bodily injury and property damage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). The GRP is intended to reduce the ESC's premium by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate.

Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to ESCs that can meet the GRP's selection criteria. Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

**7. DEFINED BENEFIT PENSION PLANS**

**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 retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SERS, 45 North Fourth Street, Columbus, Ohio 43215-3634.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute at an actuarially determined rate, which is currently 14% of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts by the SERS' Retirement Board. The ESC's required contributions to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were approximately \$673,000, \$678,000, and \$658,000 respectively; 100% has been contributed for fiscal year 2004 and 100% for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is recorded as a liability within the respective funds.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**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 basis 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 issued 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.

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

A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 14%. Contribution rates are established by STRS, 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 years ended June 30, 2004, 2003, and 2002 were \$300,000, \$305,000, and \$261,000, respectively; 100% has been contributed for fiscal years 2004, 2003 and 2002.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**Social Security System**

All employees not covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2004, members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

**8. 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 Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute and are funded on a pay-as-you-go basis.

STRS 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 the year ended June 30, 2003, the board allocated employer contributions equal to 1.00% of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled approximately \$21,000 during fiscal year 2004. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$2.8 billion at June 30, 2003. For the year ended June 30, 2003, net health care costs paid by STRS were \$352.3 million and STRS had 108,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more 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% of the premium. For this fiscal year, employer contributions to fund health care benefits were 4.91% 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 2004, the minimum pay has been established at \$14,500. The surcharge rate 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 for the year ended June 30, 2003 were \$223.4 million and the target level was \$335.2 million. At June 30, 2003, SERS' net assets available for payment of health care benefits was \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits. For the ESC, this amount to fund health care benefits, including the surcharge, equaled approximately \$236,000 during the 2004 fiscal year.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**9. LONG-TERM OBLIGATIONS**

The changes in the ESC's long-term obligations during fiscal year 2004 were as follows:

	Balance			Balance	Due within
	<u>7/1/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/04</u>	<u>One Year</u>
Compensated Absences	\$ <u>175,253</u>	<u>157,702</u>	<u>(16,548)</u>	<u>316,407</u>	<u>39,124</u>

**10. JOINTLY GOVERNED ORGANIZATION**

*Southwestern Ohio Computer Association*

The Southwestern Ohio Computer Association (SWOCA), a jointly governed organization, was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. Each of the member schools of the three county consortium supports SWOCA based upon per pupil charge dependent upon the software package utilized. SWOCA is governed by a board of directors consisting of the superintendents and treasurers of member ESCs. The degree of control exercised by any participating ESC is limited to its representation on the Board. To obtain financial information, write to the Southwestern Ohio Computer Association, at 3603 Hamilton-Middletown, Hamilton, Ohio 45011.

**11. INSURANCE PURCHASING POOLS**

*Ohio School Boards Association Workers' Compensation Group Rating Plan*

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

*Butler County Health Plan*

The ESC participates in the Butler County Health Plan (BCHP), an insurance purchasing pool, formed to provide affordable and desirable dental, life, medical, and other disability group insurance for member's employees, eligible dependents and designated beneficiaries. The Board of Directors consists of one representative from each of the participating members and is elected by the vote of a majority of the member school districts. Financial information can be obtained from BCHP at P. O. Box 526, Middletown, Ohio 45042.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2004**

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**12. OPERATING LEASE**

The ESC signed a ten-year office lease commencing on July 1, 2004. The following is a schedule of the minimum future year payments under this lease:

Year Ended		
<u>June 30</u>		
2005	\$	137,638
2006		145,974
2007		150,222
2008		154,783
2009		159,345
2010 - 2014		<u>871,600</u>
	\$	<u>1,619,562</u>

**13. CONTINGENCIES**

**Grants**

The ESC received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the ESC at June 30, 2004.

**Litigation**

As of the balance sheet date, the ESC was not party to legal proceedings.

**14. SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding system is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..." The ESC is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund  
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
 General Fund  
 Year Ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Contractual services	\$ 1,623,365	1,920,476	1,920,476	-
Earnings on investments	9,000	11,808	11,808	-
Intergovernmental	3,365,000	3,378,440	3,378,440	-
Other local revenues	131,180	198,041	198,041	-
<b>Total revenues</b>	<u>5,128,545</u>	<u>5,508,765</u>	<u>5,508,765</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	201,932	197,703	197,703	-
Special education	546,014	581,316	581,316	-
Support services:				
Pupil	1,164,023	1,198,401	1,198,401	-
Instructional staff	1,324,205	1,397,186	1,397,186	-
Board of Education	14,900	10,935	10,935	-
Administration	1,044,189	960,190	960,190	-
Fiscal	183,833	148,448	148,448	-
Operation and maintenance of plant	82,931	156,477	156,477	-
Pupil transportation	59,574	65,740	65,740	-
Central	828,127	871,283	871,283	-
<b>Total expenditures</b>	<u>5,449,728</u>	<u>5,587,679</u>	<u>5,587,679</u>	<u>-</u>
Excess of revenues over expenditures	(321,183)	(78,914)	(78,914)	-
<b>Other financing sources (uses):</b>				
Advances in	-	156,258	156,258	-
Advances out	-	(127,263)	(127,263)	-
<b>Total other financing sources (uses):</b>	<u>-</u>	<u>28,995</u>	<u>28,995</u>	<u>-</u>
Change in fund balance	(321,183)	(49,919)	(49,919)	-
Fund balance, beginning of year	320,164	320,164	320,164	
Prior year encumbrances appropriated	89,124	89,124	89,124	
Fund balance, end of year	\$ <u>88,105</u>	<u>359,369</u>	<u>359,369</u>	

See accompanying notes to required supplemental information.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Revenues, Expenditures and Changes in Fund  
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
 Federal Head Start Fund  
 Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ 4,592,275	4,592,275	4,592,275	-
<b>Expenditures:</b>				
Current:				
Instruction:				
Special education	571,324	571,324	772,957	(201,633)
Support services:				
Pupil	1,095,907	1,095,907	1,500,019	(404,112)
Instructional staff	886,583	886,583	908,986	(22,403)
Administration	652,433	652,433	470,712	181,721
Fiscal	140,512	140,512	(35,956)	176,468
Operation and maintenance of plant	668,552	668,552	521,421	147,131
Pupil transportation	621,468	621,468	488,777	132,691
Central	42,437	42,437	13,148	29,289
<b>Total expenditures</b>	<u>4,679,216</u>	<u>4,679,216</u>	<u>4,640,064</u>	<u>39,152</u>
Excess of revenues over expenditures	(86,941)	(86,941)	(47,789)	(39,152)
<b>Other financing sources (uses):</b>				
Advances out	-	-	(405)	405
Change in fund balance	(86,941)	(86,941)	(48,194)	(38,747)
Fund balance, beginning of year	(158,039)	(158,039)	(158,039)	
Prior year encumbrances appropriated	158,702	158,702	158,702	
Fund balance, end of year	\$ <u>(86,278)</u>	<u>(86,278)</u>	<u>(47,531)</u>	

See accompanying notes to required supplemental information.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to Required Supplementary Information

Year Ended June 30, 2004

## Note A Budgetary Basis of Accounting

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP statements and the budgetary basis schedule:

	<u>General</u>	<u>Head Start</u>
Net change in fund balance - GAAP Basis	\$ 104,302	131,637
Increase / (decrease):		
Due to revenues	(10,434)	(49,795)
Due to expenditures	(33,949)	(40,270)
Due to other sources (uses)	28,995	(405)
Due to encumbrances	<u>(138,833)</u>	<u>(89,361)</u>
Net change in fund balance - Budget Basis	\$ <u>(49,919)</u>	<u>(48,194)</u>



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

<u>Federal Grantor/Program Title</u>	<u>Pass Through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Receipts</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
(Passed through Ohio Department of Education)				
Child Care and Adult Care Food Program	CC-MO-03	10.558	\$ 29,460	29,460
	CC-MO-04		<u>270,489</u>	<u>270,489</u>
Total U.S. Department of Agriculture			<u>299,949</u>	<u>299,949</u>
<u>U.S. Department of Health and Human Services:</u>				
Head Start	05CH5445	93.600	4,292,341	4,250,106
(Passed through Ohio Department of Education)				
Temporary Aid to Needy Families (TANF)	C50-510	93.580	<u>918,412</u>	<u>869,636</u>
Total U.S. Department of Health and Human Services			<u>5,210,753</u>	<u>5,119,742</u>
Total Federal Awards			\$ <u>5,510,702</u>	<u>5,419,691</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:**

**NOTE A - SIGNIFICANT ACCOUNTING POLICES**

The schedule of expenditures of federal awards is a summary of the activity of the School District's federal awards programs. This schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

Certain federal programs require that the School District contribute non-federal funds (matching funds) to support the federally-funded programs. The School District has complied with the matching requirements. The expenditures of non-federal matching funds is not included on the schedule.

Clark, Schaefer, Hackett & Co.  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS

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

To the Board of Education  
Butler County Educational Service Center:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County Educational Service Center (the Service Center) as of and for the year ended June 30, 2004, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated December 10, 2004 wherein we noted that the Service Center implemented Governmental Accounting Standards Board Statements 34, 37, 38 and 39 as well as Governmental Accounting Standards Board Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of 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 those specified parties.

*Clark, Schaefer, Haslett & Co.*

Cincinnati, Ohio  
December 10, 2004

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

To the Board of Education  
Butler County Educational Service Center:

Compliance

We have audited the compliance of Butler County Educational 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 each of its major federal programs for the year ended June 30, 2004. Butler County Educational Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. 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 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 with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Butler County Educational 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, Butler County Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Butler County Educational Service Center is responsible for establishing and maintaining effective control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Butler County Educational 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 of 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.

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
December 10, 2004

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

## Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

### Section I - Summary of Auditors' Results

#### Financial Statements

Type of report issued on financial statements:	unqualified
Internal control over financial reporting:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weakness(es)?	none
Noncompliance material to financial statements noted?	none

#### Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	none
Reportable condition(s) identified not considered to be material weakness(es)?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	none
Identification of major programs:	
<i>CFDA 93.600 –Head Start Program</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

### Section II - Financial Statement Findings

None.

### Section III - Federal Award Findings and Questioned Costs

None.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Prior Audit Findings

Year Ended June 30, 2004

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no reportable conditions or material weaknesses with respect to internal controls over compliance with requirements that could have a direct and material effect on a major federal program were reported in the prior year.







**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140

Telephone 614-466-4514  
800-282-0370

Facsimile 614-466-4490

**BUTLER COUNTY EDUCATIONAL SERVICES 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 24, 2005**