

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Basic Financial Statements

Year Ended June 30, 2007

With

Independent Auditors' Report





Mary Taylor, CPA  
Auditor of State

Board of Education  
Butler County Educational Service Center  
1910 Fairgrove Avenue  
Suite B  
Hamilton, Ohio 45011

We have reviewed the *Independent Auditors' Report* of the Butler County Educational Service Center, Butler County, prepared by Clark, Schaefer, Hackett & Co., for the audit period July 1, 2006 through June 30, 2007. 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.

*Mary Taylor*

Mary Taylor, CPA  
Auditor of State

November 26, 2007

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# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

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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, 2007, 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2007 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 on pages 3 through 9 is not a required part of the basic financial statements but is 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.

For the budgetary comparison information on pages 30 through 32, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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, Hachett & Co.*

Cincinnati, Ohio  
November 5, 2007



## 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, 2007. 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 2007 are listed below:

- ✓ The assets of the ESC exceeded its liabilities at year-end by \$2,775,578. Of this amount, \$1,996,907 is restricted.
- ✓ In total, net assets increased by \$406,426.
- ✓ The ESC had \$11,357,397 in expenses related to governmental activities; only \$8,060,304 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$3,703,519, made up primarily of State Foundation payments provided adequate funding for these programs.
- ✓ The General Fund balance increased by \$332,979 from \$404,151 at June 30, 2006 to \$737,130 at June 30, 2007.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is 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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Management's Discussion and Analysis**

**Year Ended June 30, 2007**

**Unaudited**

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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.

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.

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**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.

**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.

**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, 2007 and 2006:

		<u><b>FY07</b></u>	<u><b>FY06</b></u>
Current and other assets	\$	3,860,400	3,386,547
Capital assets		<u>209,034</u>	<u>234,483</u>
Total assets		<u>4,069,434</u>	<u>3,621,030</u>
Long-term liabilities		306,709	331,335
Other liabilities		<u>987,147</u>	<u>920,543</u>
Total liabilities		<u>1,293,856</u>	<u>1,251,878</u>
Net assets:			
Invested in capital assets, net of debt		209,034	234,483
Restricted:			
Head Start		1,979,848	1,914,954
Other purposes		17,059	6,176
Unrestricted		<u>569,637</u>	<u>213,539</u>
Total net assets	\$	<u><u>2,775,578</u></u>	<u><u>2,369,152</u></u>

Cash increased approximately \$469,000 due to increased services to the school districts served by the ESC, which in turn has resulted in an increased cash balance to fulfill our obligations in the months of July and August.

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**B. Governmental Activities during fiscal year 2007**

The following table presents a condensed summary of the ESC's activities during fiscal year 2007 and 2006 and the resulting change in net assets:

	<u><b>FY07</b></u>	<u><b>FY06</b></u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 3,570,634	2,826,559
Operating grants and contributions	<u>4,489,670</u>	<u>4,583,436</u>
Total program revenues	<u>8,060,304</u>	<u>7,409,995</u>
General revenues:		
Grants and entitlements	3,388,366	3,372,868
Investment earnings	62,015	74,178
Miscellaneous	<u>253,138</u>	<u>294,916</u>
Total general revenues	<u>3,703,519</u>	<u>3,741,962</u>
<b>Total revenues</b>	<u><u>11,763,823</u></u>	<u><u>11,151,957</u></u>
<b>Expenses:</b>		
Instruction	2,055,672	1,711,825
Support services:		
Pupil	2,476,072	2,499,494
Instructional staff	2,141,163	2,291,532
Board of Education	15,483	7,013
Administration	1,431,304	1,513,940
Fiscal	564,781	712,666
Operation and maintenance of plant	729,597	662,415
Pupil transportation	210,491	204,996
Central	<u>1,732,834</u>	<u>1,450,376</u>
<b>Total expenses</b>	<u><u>11,357,397</u></u>	<u><u>11,054,257</u></u>
<b>Change in net assets</b>	\$ <u><u>406,426</u></u>	<u><u>97,700</u></u>

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**Management's Discussion and Analysis**

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Of the total governmental activities revenues of \$11,763,823, \$8,060,304 (69%) 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, \$3,388,366 (91%) is from state funding. The ESC's operations are reliant upon the state's foundation program.

In fiscal year 2007 we increased our services to our school districts. The increase in services has yielded roughly \$700,000 in new revenue. The majority of the service that we offer to our school districts is personnel. Since the school districts pay their fiscal year balances in June, and personnel contracts run from August thru July, the inflated cash balance in June is used to payout contract accruals.

The ESC gave increases in salaries in fiscal year 2007 which accounts for the majority of increase in expenses.

***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 71% of the cost of the general government programs was recouped in program revenues. Support services costs were \$9,301,725 but program revenue contributed to fund 70% of those costs. Thus, general revenues of \$2,817,663 were used to support of remainder of the instruction costs.

<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	\$	2,055,672	1,576,242	77%	479,430
Support services		<u>9,301,725</u>	<u>6,484,062</u>	70%	<u>2,817,663</u>
<b>Total</b>	\$	<u>11,357,397</u>	<u>8,060,304</u>	<u>71%</u>	<u>3,297,093</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
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**Unaudited**

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**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 \$3,806,470 (99%) of the total \$3,860,400 governmental funds assets.

**General Fund.** Fund balance at June 30, 2007 was \$737,130, with an unreserved fund balance of \$574,991. The fund balance increased by \$332,979. The unreserved fund balance represents approximately 8% 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, 2007 will be used to meet program requirements.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There are no requirements for the ESC identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

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. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

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

**CAPITAL ASSET ADMINISTRATION**

**Capital assets.** At June 30, 2007, the ESC had \$209,034 invested in capital assets, including furniture, equipment and vehicles. See Note 3 to the financial statements for more detail.

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

		<u>FY07</u>	<u>FY06</u>
Equipment and furniture	\$	180,815	192,718
Vehicles		<u>28,219</u>	<u>41,765</u>
Total	\$	<u>209,034</u>	<u>234,483</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
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**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.

**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, 2007

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 1,070,311
Receivables:	
Accounts	83,033
Intergovernmental	2,705,945
Interest	1,111
Depreciable capital assets, net	<u>209,034</u>
<b>Total assets</b>	<u>4,069,434</u>
<b>Liabilities:</b>	
Accounts payable	52,322
Accrued wages and benefits	769,407
Intergovernmental payable	165,418
Noncurrent liabilities:	
Due within one year	35,559
Due within more than one year	<u>271,150</u>
<b>Total liabilities</b>	<u>1,293,856</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	209,034
Restricted for:	
Head Start	1,979,848
Other purposes	17,059
Unrestricted	<u>569,637</u>
<b>Total net assets</b>	<u>\$ 2,775,578</u>

See accompanying notes to the basic financial statements.



**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Statement of Activities  
Year Ended June 30, 2007

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 470,658	280,662	-	\$ (189,996)
Special education	1,585,014	521,184	774,396	(289,434)
Support services:				
Pupil	2,476,072	477,200	1,756,084	(242,788)
Instructional staff	2,141,163	917,347	758,450	(465,366)
Board of Education	15,483	-	-	(15,483)
Administration	1,431,304	62,460	487,730	(881,114)
Fiscal	564,781	-	117,893	(446,888)
Operation and maintenance of plant	729,597	147,450	475,175	(106,972)
Pupil transportation	210,491	67,718	119,942	(22,831)
Central	<u>1,732,834</u>	<u>1,096,613</u>	<u>-</u>	<u>(636,221)</u>
Total Governmental Activities	\$ <u>11,357,397</u>	<u>3,570,634</u>	<u>4,489,670</u>	<u>(3,297,093)</u>
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs				3,388,366
Investment earnings				62,015
Miscellaneous				<u>253,138</u>
Total general revenues				<u>3,703,519</u>
Change in net assets				406,426
Net assets beginning of year				<u>2,369,152</u>
Net assets end of year			\$	<u><u>2,775,578</u></u>

See accompanying notes to the basic financial statements.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Balance Sheet  
 Governmental Funds  
 June 30, 2007

	General	Federal Head Start	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Equity in pooled cash and investments	\$ 1,016,381	-	53,930	1,070,311
Receivables:				
Accounts	83,033	-	-	83,033
Accrued interest	1,111	-	-	1,111
Intergovernmental	159,850	2,546,095	-	2,705,945
<b>Total assets</b>	<b>1,260,375</b>	<b>2,546,095</b>	<b>53,930</b>	<b>3,860,400</b>
<b>Liabilities:</b>				
Accounts payable	37,664	14,658	-	52,322
Accrued wages and benefits	426,574	335,063	7,770	769,407
Intergovernmental payable	57,555	104,980	2,883	165,418
Deferred revenue	1,453	1,914,978	-	1,916,431
<b>Total liabilities</b>	<b>523,246</b>	<b>2,369,679</b>	<b>10,653</b>	<b>2,903,578</b>
<b>Fund Balances:</b>				
Reserved for:				
Encumbrances	162,139	120,605	15,182	297,926
Unreserved, reported in:				
General Fund	574,991	-	-	574,991
Special Revenue Funds	-	55,810	28,095	83,905
<b>Total fund balances</b>	<b>737,130</b>	<b>176,415</b>	<b>43,277</b>	<b>956,822</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,260,376</b>	<b>2,546,094</b>	<b>53,930</b>	

***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.	209,034
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.	1,916,431
Long-term liabilities for compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(306,709)
Net assets of governmental activities	\$ <u>2,775,578</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, 2007

	General	Federal Head Start	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Contractual services	\$ 3,476,085	-	-	3,476,085
Tuition and fees	-	-	94,549	94,549
Interest	62,015	-	-	62,015
Intergovernmental	3,388,366	4,486,169	-	7,874,535
Other local revenues	247,753	-	1,640	249,393
<b>Total revenues</b>	<u>7,174,219</u>	<u>4,486,169</u>	<u>96,189</u>	<u>11,756,577</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	463,184	-	-	463,184
Special education	775,838	770,743	38,433	1,585,014
Support services:				
Pupil	751,211	1,734,146	11,786	2,497,143
Instructional staff	1,372,263	742,370	26,530	2,141,163
Board of Education	15,483	-	-	15,483
Administration	970,652	476,645	10,323	1,457,620
Fiscal	447,015	115,800	-	562,815
Operation and maintenance of plant	241,392	468,978	1,152	711,522
Pupil transportation	109,090	65,564	-	174,654
Central	1,695,112	52,864	-	1,747,976
<b>Total expenditures</b>	<u>6,841,240</u>	<u>4,427,110</u>	<u>88,224</u>	<u>11,356,574</u>
Net change in fund balance	332,979	59,059	7,965	400,003
Fund balance, beginning of year	404,151	117,356	35,312	
Fund balance, end of year	<u>\$ 737,130</u>	<u>176,415</u>	<u>43,277</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	66,025
Depreciation expense	(91,474)

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. 24,626

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 7,246

Change in Net Assets of Governmental Activities \$ 406,426

See accompanying notes to the basic financial statements.

# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Assets

Fiduciary Funds

June 30, 2007

	Private Purpose Trusts	Agency Funds
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Equity in pooled cash and investments	\$ 34,037	824,255
Intergovernmental receivable	<u>          -</u>	<u>186,918</u>
Total assets	<u>34,037</u>	<u>1,011,173</u>
<b>LIABILITIES</b>		
Accounts payable	-	159,850
Due to other governments	<u>          -</u>	<u>851,323</u>
Total liabilities	<u>          -</u>	<u>1,011,173</u>
<b>NET ASSETS</b>		
Held in trust	\$ <u>34,037</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, 2007

	<u>Private- Purpose Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 1,000
Interest income	<u>1,669</u>
Total additions	<u>2,669</u>
<b>Deductions:</b>	
Community gifts, awards and scholarships	<u>1,000</u>
Total deductions	<u>1,000</u>
Change in net assets	1,669
Net assets, beginning of year	<u>32,368</u>
Net assets, end of year	\$ <u><u>34,037</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, 2007**

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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, 2007

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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 8 and 9 to the basic 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, 2007

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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 and are used to account for the ESC's fiscal agent activities.

#### 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. 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.



## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the Basic Financial Statements

Year Ended June 30, 2007

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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.

Government-wide financial statements are prepared using the accrual basis of accounting. Also, fiduciary 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. 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 2007, 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, 2007.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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Under existing Ohio statutes, all investment earnings are assigned to the General Fund except for those specifically related to the private-purpose trust fund in accordance with Board policy.

**F. 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

**G. 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.

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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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**H. 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.

**I. 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.

**J. 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.

**K. 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.

**L. 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.

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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## **2. 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 ESC 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;

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the Basic Financial Statements

Year Ended June 30, 2007

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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
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" and amended by GASB Statement No. 40 "Deposit and Investment Risk Disclosures":

#### Deposits

##### *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a custodial credit risk policy. At year-end, \$654,872 of the School District's bank balance of \$754,872 was exposed to custodial credit risk since it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

#### Investments

The School District's investments at June 30, 2007 consist of an investment in STAROhio with a fair value of \$1,386,405. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Notes to the Basic Financial Statements**  
**Year Ended June 30, 2007**

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**3. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance 7/1/06	Additions	Disposals	Balance 6/30/07
<b><i>Governmental Activities</i></b>				
Equipment and furniture	\$ 1,003,118	66,025	(37,795)	1,031,348
Vehicles	227,222	-	-	227,222
Totals at historical cost	<u>1,230,340</u>	<u>66,025</u>	<u>(37,795)</u>	<u>1,258,570</u>
Less accumulated depreciation:				
Equipment and furniture	810,400	77,928	(37,795)	850,533
Vehicles	185,457	13,546	-	199,003
Total accumulated depreciation	<u>995,857</u>	<u>91,474</u>	<u>(37,795)</u>	<u>1,049,536</u>
Capital assets, net	<u>\$ 234,483</u>	<u>(25,449)</u>	<u>-</u>	<u>209,034</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 10,471
Support services:	
Pupil	5,728
School administration	3,000
Fiscal	1,966
Operation and maintenance of plant	18,075
Pupil transportation	35,837
Central	<u>16,397</u>
Total depreciation expense	<u>\$ 91,474</u>

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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#### **4. 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.

The ESC participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 9). 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.

#### **5. 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

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, 2007, 2006, and 2005 were approximately \$796,000, \$700,000, and \$657,000 respectively; 79% has been contributed for fiscal year 2007 and 100% for fiscal years 2006 and 2005. The unpaid contribution for fiscal year 2007 is recorded as a liability within the respective funds.

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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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, 2007, 2006, and 2005 were \$305,000, \$305,000, and \$295,000, respectively; 100% has been contributed for fiscal years 2007, 2006 and 2005.



## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

### **Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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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, 2007, members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

#### **6. 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, 2006, 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 \$22,000 during fiscal year 2007. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.5 billion at June 30, 2006 (latest information available). For the year ended June 30, 2006, net health care costs paid by STRS were \$282.7 million and STRS had 119,184 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 3.42% 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 2007, the minimum pay has been established at \$35,800. 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, 2006 (latest information available) were \$158.8 million and the target level was \$200.6 million. At June 30, 2006, SERS' net assets available for payment of health care benefits was \$295.6 million. SERS has approximately 59,492 participants currently receiving health care benefits. For the ESC, this amount to fund health care benefits, including the surcharge, equaled approximately \$195,000 during the 2007 fiscal year.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2007**

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**7. LONG-TERM OBLIGATIONS**

The changes in the ESC's long-term obligations during fiscal year 2007 were as follows:

	Balance			Balance	Due within
	<u>7/1/06</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/07</u>	<u>One Year</u>
Compensated Absences	\$ <u>331,335</u>	<u>20,189</u>	<u>(44,815)</u>	<u>306,709</u>	<u>35,559</u>

**8. 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.

**9. 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, 2007**

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**10. 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>		
2008	\$	154,783
2009		159,345
2010		164,221
2011		169,098
2012		174,131
2013 - 2014		<u>364,150</u>
	\$	<u>1,185,728</u>

**11. 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, 2007.

**Litigation**

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

## 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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Contractual services	\$ 3,321,000	3,100,000	3,421,187	321,187
Earnings on investments	55,837	78,000	82,959	4,959
Intergovernmental	3,387,743	3,388,000	3,388,366	366
Other local revenues	<u>177,657</u>	<u>521,000</u>	<u>226,792</u>	<u>(294,208)</u>
<b>Total revenues</b>	<u>6,942,237</u>	<u>7,087,000</u>	<u>7,119,304</u>	<u>32,304</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	497,357	497,357	465,754	31,603
Special education	835,636	835,636	779,648	55,988
Support services:				
Pupil	931,855	931,855	765,378	166,477
Instructional staff	1,387,967	1,387,967	1,460,204	(72,237)
Board of Education	8,400	10,400	14,978	(4,578)
Administration	1,119,536	1,142,581	1,019,536	123,045
Fiscal	416,006	431,606	454,012	(22,406)
Operation and maintenance of plant	218,713	218,713	241,665	(22,952)
Pupil transportation	113,415	113,415	111,671	1,744
Central	<u>1,620,771</u>	<u>1,643,771</u>	<u>1,719,789</u>	<u>(76,018)</u>
<b>Total expenditures</b>	<u>7,149,656</u>	<u>7,213,301</u>	<u>7,032,635</u>	<u>180,666</u>
Excess of revenues over expenditures	(207,419)	(126,301)	86,669	212,970
<b>Other financing sources (uses):</b>				
Transfers in	-	140,000	209,560	69,560
Transfers out	-	(176,354)	(176,354)	-
Advances in	-	-	340,164	340,164
Advances out	<u>-</u>	<u>-</u>	<u>(159,850)</u>	<u>(159,850)</u>
<b>Total other financing sources (uses):</b>	<u>-</u>	<u>(36,354)</u>	<u>213,520</u>	<u>249,874</u>
Change in fund balance	(207,419)	(162,655)	300,189	462,844
Fund balance, beginning of year	443,390	443,390	443,390	
Prior year encumbrances appropriated	<u>83,636</u>	<u>83,636</u>	<u>83,636</u>	
Fund balance, end of year	\$ <u>319,607</u>	<u>364,371</u>	<u>827,215</u>	

See accompanying notes to 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, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance With Final Budget
<b>Revenues:</b>				
Intergovernmental	\$ 2,414,567	6,640,818	4,386,897	(2,253,921)
<b>Expenditures:</b>				
Current:				
Instruction:				
Special education	442,601	1,308,896	776,492	532,404
Support services:				
Pupil	691,664	1,114,014	1,777,770	(663,756)
Instructional staff	465,683	512,686	758,293	(245,607)
Administration	388,975	537,612	488,048	49,564
Fiscal	78,737	79,978	119,512	(39,534)
Operation and maintenance of plant	277,535	744,684	476,872	267,812
Pupil transportation	46,174	123,174	65,622	57,552
Central	48,124	125,099	57,398	67,701
<b>Total expenditures</b>	<u>2,439,493</u>	<u>4,546,143</u>	<u>4,520,007</u>	<u>26,136</u>
Excess of revenues over expenditures	(24,926)	2,094,675	(133,110)	(2,227,785)
<b>Other financing sources (uses):</b>				
Transfers in	-	-	698	698
Transfers out	-	-	(746)	(746)
Advances out	-	-	(24,926)	(24,926)
<b>Total other financing sources (uses):</b>	<u>-</u>	<u>-</u>	<u>(24,974)</u>	<u>(24,974)</u>
Change in fund balance	(24,926)	2,094,675	(158,084)	(2,252,759)
Fund balance, beginning of year	-	-	-	
Prior year encumbrances appropriated	24,926	24,926	24,926	
Fund balance, end of year	\$ <u>-</u>	<u>2,119,601</u>	<u>(133,158)</u>	

See accompanying notes to supplemental information.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to Supplementary Information

Year Ended June 30, 2007

### Note A Budgetary Basis of Accounting

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of legal level of control. 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 2007. 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.

While the ESC is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis 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	\$	332,979	59,059
Increase / (decrease):			
Due to revenues		(54,915)	(99,272)
Due to expenditures		(2,229)	(226,054)
Due to other sources (uses)		213,520	(24,974)
Due to encumbrances		<u>(189,166)</u>	<u>133,157</u>
Net change in fund balance - Budget Basis	\$	<u>300,189</u>	<u>(158,084)</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

<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-06	10.558	\$ 34,482	34,482
	CC-MO-07	10.558	209,438	209,438
	LU-CP-06	10.558	1,721	1,721
	LU-CP-07	10.558	<u>10,481</u>	<u>10,481</u>
Total U.S. Department of Agriculture			<u>256,122</u>	<u>256,122</u>
<u>U.S. Department of Health and Human Services:</u>				
Head Start	N/A	93.600	<u>4,130,774</u>	<u>4,130,728</u>
Total U.S. Department of Health and Human Services			<u>4,130,774</u>	<u>4,130,728</u>
Total Federal Awards			\$ <u>4,386,896</u>	<u>4,386,850</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 Service Center'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 Service Center contribute non-federal funds (matching funds) to support the federally-funded programs. The Service Center 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 the Butler County Educational Service Center (the Service Center) as of and for the year ended June 30, 2007, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated November 5, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Service Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Service Center's financial statements that is more than inconsequential will not be prevented or detected by the Service Center's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting and is labeled as finding 2007-1.



A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Service Center's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

#### 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 grants 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*.

We noted certain matters that we reported to management of the Service Center in a separate letter dated November 5, 2007.

The Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Service Center's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the organization, and the Board of Education and is not intended to be and should not be used by anyone other than these specified parties.

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
November 5, 2007



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

**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 the Butler County Educational Service Center (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 each of its major federal programs for the year ended June 30, 2007. 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 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 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, 2007.

## Internal Control over Compliance

The management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

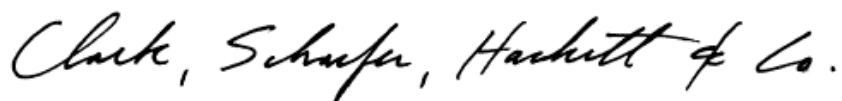
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the Service Center's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Service Center's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-2 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Service Center's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The Service Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Service Center's response and, accordingly, we express no opinion on it.

This report is intended solely 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.



Cincinnati, Ohio  
November 5, 2007

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

**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
Significant deficiency(ies) identified not considered to be material weakness(es)?	yes
Noncompliance material to financial statements noted?	none

**Federal Awards**

Internal Control over major programs:	
Material weakness(es) identified?	none
Significant deficiency(ies) identified not considered to be material weakness(es)?	yes
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**

### Finding 2007-1 Non-Payroll Cash Disbursements

As part of our testing of internal control over non-payroll cash disbursements, we selected a sample of sixty (60) cash disbursements from throughout the fiscal year. The Service Center's internal control policies require that requisitions be approved by a Supervisor as well as the Treasurer and Superintendent. We noted an instance in which a requisition was not approved a Supervisor. In addition, we noted several requisitions which did not have the approval of the Superintendent. Generally, the Superintendent approves a list of requisitions but our sample included nineteen (19) requisitions from one list for which there was no indication of approval by the Superintendent. Deviations from established internal control policies could result in the misappropriation of public funds. We recommend the Service Center review its internal control procedures over non-payroll cash disbursements and take steps to ensure that internal controls are properly performed prior to the disbursement of cash.

#### ***Management response:***

We have reviewed our records for fiscal year 2007 and have only found one instance in which the Superintendent did not sign the requisition list. This one instance was the above mentioned occurrence. We regret the one error and have made corrections to our system to prevent this from occurring in the future.

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

### Finding 2007-2 Non-Payroll Cash Disbursements

The significant deficiency described at Finding 2007-1 is applicable to the Service Center's major federal programs.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Prior Audit Findings

Year Ended June 30, 2007

The prior audit disclosed no instances of noncompliance with requirements of major federal programs. In addition, no significant deficiencies 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.



**Mary Taylor, CPA**  
Auditor of State

**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  
DECEMBER 6, 2007**