



**Auditor of State
Betty Montgomery**

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Butler County Educational Service Center, Butler County, Ohio (the Service Center), as of and for the year ended June 30, 2003, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Service Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Service Center, as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2004 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

February 4, 2004

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BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 2003

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
	General	Special Revenue	Capital Projects	Trust & Agency	General Fixed Asset	General Long-Term Obligations	
ASSETS AND OTHER DEBITS							
ASSETS:							
Equity in pooled cash and cash equivalents	\$ 409,288	35,366	13,754	777,347	-	-	1,235,755
Net receivables:							
Accounts	19,923	-	-	-	-	-	19,923
Accrued interest	875	-	-	28	-	-	903
Intergovernmental	-	3,948,935	-	136,748	-	-	4,085,683
Interfund loan receivable	153,565	-	-	-	-	-	153,565
Prepayments	5,164	8,446	-	-	-	-	13,610
Property, plant and equipment (net of accumulated depreciation where applicable)	-	-	-	-	1,818,927	-	1,818,927
OTHER DEBITS:							
Amount to be provided for retirement of general long-term obligations	-	-	-	-	-	175,253	175,253
Total assets and other debits	\$ 588,815	3,992,747	13,754	914,123	1,818,927	175,253	7,503,619
LIABILITIES, EQUITY AND OTHER CREDITS							
LIABILITIES:							
Accounts payable	\$ 16,494	68,379	-	22,221	-	-	107,094
Accrued wages and benefits	366,751	406,056	-	7,793	-	-	780,600
Due to other governments	-	-	-	116,808	-	-	116,808
Deposits held and due to others	-	-	-	581,119	-	-	581,119
Deferred revenue	-	3,378,196	-	-	-	-	3,378,196
Compensated absences payable	10,203	6,345	-	-	-	175,253	191,801
Pension obligation payable	14,605	32,729	-	2,258	-	-	49,592
Interfund loan payable	-	405	-	153,160	-	-	153,565
Total liabilities	408,053	3,892,110	-	883,359	-	175,253	5,358,775
EQUITY AND OTHER CREDITS:							
Investments in general fixed assets	-	-	-	-	1,818,927	-	1,818,927
Fund balances:							
Reserved for:							
Encumbrances	79,015	130,303	-	-	-	-	209,318
Prepayments	5,164	8,446	-	-	-	-	13,610
Unreserved - undesignated	96,583	(38,112)	13,754	30,764	-	-	102,989
Total equity and other credits	180,762	100,637	13,754	30,764	1,818,927	-	2,144,844
Total liabilities, equity and other credits	\$ 588,815	3,992,747	13,754	914,123	1,818,927	175,253	7,503,619

The notes to the financial statements are an integral part of this statement.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Similar Trust Funds

Year Ended June 30, 2003

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Similar Trust Fund	
Revenues:					
Tuition	\$ -	82,124	-	-	82,124
Contractual services	1,137,540	-	-	-	1,137,540
Earnings on investments	16,377	-	-	441	16,818
Other local revenue	1,801,287	2,390	-	3,513	1,807,190
Intergovernmental - state	2,152,499	1,336,921	-	-	3,489,420
Intergovernmental - federal	-	5,235,599	-	-	5,235,599
Total revenues	<u>5,107,703</u>	<u>6,657,034</u>	<u>-</u>	<u>3,954</u>	<u>11,768,691</u>
Expenditures:					
Current:					
Instruction:					
Regular	317,689	-	-	-	317,689
Special	530,642	1,056,280	-	-	1,586,922
Support services:					
Pupil	984,021	1,954,419	-	275	2,938,715
Instructional staff	1,317,687	1,175,721	-	-	2,493,408
General administration	12,287	-	-	-	12,287
School administration	874,994	589,184	-	-	1,464,178
Fiscal	112,356	128,885	-	-	241,241
Operations and maintenance	152,871	650,157	-	-	803,028
Pupil transportation	82,169	617,249	-	-	699,418
Central	751,327	26,579	4,337	-	782,243
Community services	-	-	-	4,150	4,150
Total expenditures	<u>5,136,043</u>	<u>6,198,474</u>	<u>4,337</u>	<u>4,425</u>	<u>11,343,279</u>
Excess (deficit) of revenues over (under) expenditures	(28,340)	458,560	(4,337)	(471)	425,412
Other financing sources (uses):					
Operating transfers in	-	338	-	-	338
Operating transfers out	(338)	-	-	-	(338)
Total other financing sources (uses)	<u>(338)</u>	<u>338</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	(28,678)	458,898	(4,337)	(471)	425,412
Fund balance, beginning of year	209,440	(358,261)	18,091	31,235	(99,495)
Fund balance, end of year	\$ <u>180,762</u>	<u>100,637</u>	<u>13,754</u>	<u>30,764</u>	<u>325,917</u>

The notes to the financial statements are an integral part of this statement.

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BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual (Budget Basis) - All Governmental Fund Types and Similar Trust Funds

Year Ended June 30, 2003

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
From local sources:						
Tuition	\$ -	-	-	83,010	82,124	(886)
Earnings on investments	15,500	17,185	1,685	-	-	-
Other local revenues	1,578,850	1,788,584	209,734	-	2,391	2,391
Intergovernmental - state and local	3,305,760	3,290,039	(15,721)	1,519,639	1,326,921	(192,718)
Intergovernmental - federal	-	-	-	4,558,461	4,700,305	141,844
Total revenues	<u>4,900,110</u>	<u>5,095,808</u>	<u>195,698</u>	<u>6,161,110</u>	<u>6,111,741</u>	<u>(49,369)</u>
Expenditures:						
Current:						
Instruction:						
Regular	317,808	329,583	(11,775)	1,023	-	1,023
Special	534,782	533,932	850	1,732,297	1,087,650	644,647
Support services:						
Pupil	1,066,243	978,358	87,885	2,649,660	1,944,116	705,544
Instructional staff	1,351,260	1,328,957	22,303	1,847,404	1,197,967	649,437
General administration	21,350	12,660	8,690	-	-	-
School administration	932,685	886,459	46,226	1,040,790	596,331	444,459
Fiscal	183,630	115,277	68,353	209,187	131,370	77,817
Operations and maintenance	125,765	150,548	(24,783)	1,088,730	658,482	430,248
Pupil transportation	87,253	80,978	6,275	988,087	628,612	359,475
Central	772,304	750,667	21,637	56,495	32,200	24,295
Community services	-	-	-	-	-	-
Total expenditures	<u>5,393,080</u>	<u>5,167,419</u>	<u>225,661</u>	<u>9,613,673</u>	<u>6,276,728</u>	<u>3,336,945</u>
Excess of revenues over (under) expenditures	<u>(492,970)</u>	<u>(71,611)</u>	<u>421,359</u>	<u>(3,452,563)</u>	<u>(164,987)</u>	<u>3,287,576</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	3,338	3,338
Operating transfers (out)	-	(457)	(457)	-	(50,721)	(50,721)
Advances in	90,738	93,431	2,693	-	3,405	3,405
Advances (out)	-	(156,258)	(156,258)	-	(20,338)	(20,338)
Other financing sources	-	312	312	-	55	55
Total other financing sources (uses)	<u>90,738</u>	<u>(62,972)</u>	<u>(153,710)</u>	<u>-</u>	<u>(64,261)</u>	<u>(64,261)</u>
Excess of revenues and other sources over (under) expenditures and other (uses)	<u>(402,232)</u>	<u>(134,583)</u>	<u>267,649</u>	<u>(3,452,563)</u>	<u>(229,248)</u>	<u>3,223,315</u>
Fund balance, beginning of year	293,192	293,192		(138,112)	(138,112)	
Prior year encumbrances appropriated	<u>161,555</u>	<u>161,555</u>		<u>215,957</u>	<u>215,957</u>	
Fund balance, end of year	\$ <u>52,515</u>	<u>320,164</u>		<u>(3,374,718)</u>	<u>(151,403)</u>	

The notes to the financial statements are an integral part of this statement

Capital Projects Funds			Similar Trust Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
-	-	-	-	-	-
-	-	-	-	461	461
-	-	-	1,730	3,413	1,683
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,730</u>	<u>3,874</u>	<u>2,144</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	275	(275)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4,337	4,337	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,112</u>	<u>4,400</u>	<u>712</u>
<u>4,337</u>	<u>4,337</u>	<u>-</u>	<u>5,112</u>	<u>4,675</u>	<u>437</u>
<u>(4,337)</u>	<u>(4,337)</u>	<u>-</u>	<u>(3,382)</u>	<u>(801)</u>	<u>2,581</u>
-	-	-	-	-	-
(13,754)	-	13,754	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	100	100
<u>(13,754)</u>	<u>-</u>	<u>13,754</u>	<u>-</u>	<u>100</u>	<u>100</u>
(18,091)	(4,337)	13,754	(3,382)	(701)	2,681
13,764	13,764	-	31,136	31,136	-
<u>4,327</u>	<u>4,327</u>	<u>-</u>	<u>300</u>	<u>300</u>	<u>-</u>
<u>-</u>	<u>13,754</u>	<u>-</u>	<u>28,054</u>	<u>30,735</u>	<u>-</u>

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Notes to the General Purpose Financial Statements
Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The 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.

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 11 and 12 to the general purpose financial statements.

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The financial statements of the ESC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the ESC's accounting policies are described below.

Basis Of Presentation - Fund Accounting

The ESC uses funds and account groups 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 recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the ESC are grouped into the following generic fund types under the broad fund categories governmental and fiduciary.

Governmental Fund Types:

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Fund - The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The ESC's fiduciary funds include expendable trust and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

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

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

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

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds 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 increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements as well as relates to the timing of the measurements made. The modified accrual basis of accounting is followed for the governmental, expendable trust, and agency funds.

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

Non-exchange transactions, in which the ESC receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the ESC must provide local resources to be used for a specific 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.

In applying the susceptible to the accrual concept 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. However, expenditures for compensated absences are reported when the amount is expected to be paid with available expendable resources. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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.

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 2003.

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. Note 3 provides a reconciliation of the budgetary and GAAP basis of accounting.

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 Cash Equivalents" on the balance sheet.

During fiscal year 2003, 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, 2003.

Under existing Ohio statutes, all investment earnings are assigned to the General Fund except for those specifically related to the Head Start Fund and the Expendable Trust Fund in accordance with Board policy.

For purposes of presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at purchase are considered to be cash equivalents.

Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The ESC maintains a capitalization threshold of \$500. Assets in the general fixed assets account group are not depreciated. The ESC does not have any infrastructure.

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.

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.

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.

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 current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group.

Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than two months after fiscal year-end are considered not to have used current available financial resources.

Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. Short-term interfund loans made pursuant to Governing Board resolution are reflected as "interfund loan receivable/payable". Such interfund loans are repaid in the following fiscal year.

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.

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.

Total Columns on General Purpose Financial Statements

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

Fund Deficit

At June 30, 2003, the Head Start Fund (State) had a deficit fund balance of \$110,186. 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. PRIOR PERIOD ADJUSTMENTS

The School District made prior period adjustments to correct errors in prior financial statements. First, equity in pooled cash and cash equivalents in the special revenue funds and general fund was overstated and understated, respectively. Second, two agency funds were previously reported as special revenue funds. The following tables summarizes these restatements:

	General Fund	Special Revenue Funds
Fund balance - June 30, 2002	\$ 199,440	(171,849)
Prior period adjustments:		
Correction of error	10,000	(10,000)
Reclassification of funds	-	(176,412)
	<hr/>	<hr/>
Restated fund balance - June 30, 2002	\$ 209,440	(358,261)

3. BUDGETARY BASIS OF ACCOUNTING

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 as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)-All Governmental Fund Types and Similar Trust Funds 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).
4. Advances (budget basis) are presented as interfund loans (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
All Governmental Fund Types and Expendable Trust Funds

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Similar Trust</u>
GAAP Basis	\$ (28,678)	458,898	(4,337)	(471)
Revenue accruals	(11,895)	(545,293)	-	(80)
Expenditure accruals	57,746	112,394	-	(250)
Other sources and uses	(62,634)	(64,599)	-	100
Encumbrances	<u>(89,122)</u>	<u>(190,648)</u>	<u>-</u>	<u>-</u>
Budget Basis	\$ <u><u>(134,583)</u></u>	<u><u>(229,248)</u></u>	<u><u>(4,337)</u></u>	<u><u>(701)</u></u>

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Service Center 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 Service Center'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
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 District, 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 Service Center's deposits was \$674,500 . The bank balance was \$1,147,303 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 Service Center's name.

Investments: The Service Center's investments are categorized below to give an indication of the level of risk assumed by the Service Center at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Service Center or its agent in the Service Center's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the Service Center'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 Service Center's name. The Service Center'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 \$561,255 at June 30, 2003.

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ <u>Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$ 1,235,755	-
Investments:		
Star Ohio	<u>(561,255)</u>	<u>561,255</u>
GASB Statement No. 3	<u>\$ 674,500</u>	<u>561,255</u>

5. INTERFUND TRANSACTIONS

Interfund balances at June 30, 2003 consist of the following interfund loans receivable/payable:

		Interfund Loan <u>Receivable</u>	Interfund Loan <u>Payable</u>
General Fund	\$	153,565	-
<u>Agency Funds:</u>			
Early Intervention Fund		-	59,707
Miscellaneous State Grant Fund		-	16,176
District Agency Fund		-	77,277
Total		<u>-</u>	<u>153,160</u>
<u>Special Revenue Fund:</u>			
Head Start Federal Grant Fund		<u>-</u>	<u>405</u>
Totals for all fund types	\$	<u>153,565</u>	<u>153,565</u>

6. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2003 follows:

		Balance at <u>7/1/02</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>6/30/03</u>
Furniture and equipment	\$	995,501	174,367	8,693	1,161,175
Vehicles		<u>657,752</u>	-	-	<u>657,752</u>
Total General Fixed Assets	\$	<u>1,653,253</u>	<u>174,367</u>	<u>8,693</u>	<u>1,818,927</u>

7. 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 12). 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 ESCs is calculated as one experience and a common premium rate is applied to all ESCs 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.

8. 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 9% 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, 2003, 2002, and 2001 were approximately \$678,000, \$658,000, and \$711,000 respectively; 93% has been contributed for fiscal year 2003 and 100% for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003 is recorded as a liability within the respective funds.

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 9.3% 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, 2003, 2002, and 2001 were \$305,000, \$261,000, and \$264,000, respectively; 100% has been contributed for fiscal years 2003, 2002 and 2001.

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, 2003, members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

9. 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, 2002, the board allocated employer contributions equal to 4.50% of covered payroll to the Health Care Reserve Fund. For the ESC, this amount equaled approximately \$98,000 during fiscal year 2003. STRS pays health care benefits from the Health Care Reserve Fund. The balance in the fund was \$3.011 billion at June 30, 2002. For the year ended June 30, 2002, net health care costs paid by STRS were \$354.7 million and STRS had 105,300 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 8.54% 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 2002, the minimum pay has been established at \$12,400. 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, 2002 were \$182.9 million and the target level was \$274.4 million. At June 30, 2002, SERS' net assets available for payment of health care benefits was \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits. For the ESC, this amount to fund health care benefits, including the surcharge, equaled approximately \$475,000 during the 2003 fiscal year.

10. LONG-TERM OBLIGATIONS

The changes in the ESC's long-term obligations during fiscal year 2003 were as follows:

	Balance			Balance
	<u>7/1/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/03</u>
Compensated Absences	\$ 97,781	77,472	-	175,253
Total General Long-Term Obligations	\$ <u>97,781</u>	<u>77,472</u>	<u>-</u>	<u>175,253</u>

11. 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 school districts. The degree of control exercised by any participating School District 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.

12. 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.

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, 2003.

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 School District 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
BUTLER COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2003**

FEDERAL GRANTOR	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Pass Through Grantor Program Title				
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed Through Ohio Department of Education:</i>				
Child Care and Adult Care Food Program	113308-21CN-2002	10.558	\$35,445	
	113308-16CN-2002		1,511	
	113308-21CN-2002		30,942	
	046086-CCCP-2003		45,895	
	046086-CCCP-2003		62,754	
	046086-CCCP-2003		35,416	
	046086-CCCP-2003		29,229	
	046086-CCCP-2003		43,647	
	046086-CCCP-2003		38,706	67,898
	046086-CCCP-2003		35,257	290,903
Total U.S. Department of Agriculture			<u>\$358,801</u>	<u>\$358,801</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Head Start	LL-P4-02	93.600	4,341,504	4,341,426
<i>Passed Through Ohio Department of Education:</i>				
Temporary Aid to Needy Families (TANF)	LL-P4-02	93.580	1,307,575	1,307,575
Total U.S. Department of Health and Human Services			<u>5,649,079</u>	<u>5,649,001</u>
TOTAL FEDERAL ASSISTANCE			<u>\$6,007,880</u>	<u>\$6,007,802</u>

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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



Auditor of State Betty Montgomery

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

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

To the Board of Education:

We have audited the financial statements of the Butler County Educational Service Center, Butler County, Ohio (the Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated February 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Service Center in a separate letter dated February 4, 2004.

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

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

February 4, 2004



Auditor of State Betty Montgomery

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

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

To the Board of Education:

Compliance

We have audited the compliance of the Butler County Educational Service Center, Butler County, Ohio (the Service Center), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The Service Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

February 4, 2004

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected ?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10409-001	Failure to Properly Encumber Funds	Yes	

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**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

BUTLER COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 11, 2004**