



Dave Yost • Auditor of State

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Butler County Educational Service Center
Butler County
400 N. Erie Blvd, Suite A
Hamilton, Ohio 45011

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County Educational Service Center, Butler County, Ohio (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Center's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Center's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the 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 Butler County Educational Service Center, Butler County, Ohio, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* and *required budgetary comparison schedules* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Supplementary and Other Information

Our audit was conducted to opine on the Center's basic financial statements taken as a whole.

The Schedule of Federal Award Receipts and Expenditures presents additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is also not a required part of the financial statements.

The schedule is management's responsibility, and derives from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

February 13, 2014

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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, 2013. 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 2013 are listed below:

- ✓ The assets of the ESC exceeded its liabilities at year-end by \$4,580,228. Of this amount, \$3,115,271 is restricted.
- ✓ In total, net position increased by \$417,965.
- ✓ The ESC had \$23,538,926 in expenses related to governmental activities; \$20,850,538 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$3,106,353, made up primarily of State Foundation payments provided additional funding for these programs.
- ✓ The General Fund balance increased by \$631,030 from \$967,029 at June 30, 2012 to \$1,598,059 at June 30, 2013.

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.

The statement of net position presents information on all of the ESC's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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).

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis

Year Ended June 30, 2013

Unaudited

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

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

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

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

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

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

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.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Management's Discussion and Analysis
Year Ended June 30, 2013
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

A. Net position at year-end

The following table presents a condensed summary of the ESC's overall financial position at June 30, 2013 and 2012:

| | | <u>FY2013</u> | <u>FY2012</u> |
|----------------------------------|----|------------------|------------------|
| Current and other assets | \$ | 6,401,907 | 5,705,812 |
| Capital assets | | <u>2,875,693</u> | <u>2,914,516</u> |
| Total assets | | <u>9,277,600</u> | <u>8,620,328</u> |
| Long-term liabilities | | 3,179,987 | 3,186,837 |
| Other liabilities | | <u>1,517,385</u> | <u>1,271,228</u> |
| Total liabilities | | <u>4,697,372</u> | <u>4,458,065</u> |
| Net position: | | | |
| Net investment in capital assets | | 180,693 | 131,516 |
| Restricted: | | | |
| Head Start | | 3,055,221 | 3,208,792 |
| Other purposes | | 60,050 | 119,564 |
| Unrestricted | | <u>1,284,264</u> | <u>702,391</u> |
| Total net position | \$ | <u>4,580,228</u> | <u>4,162,263</u> |

A significant portion of the ESC's net position (68%) represents resources that are subject to external restrictions on how they may be used. A portion of the ESC's net position (4%) reflects its net investment in capital assets. Capital assets are used to provide services to citizens and thus, these assets are not available for future spending. Unrestricted net position may be used to meet the ESC's ongoing obligations to students and creditors.

Total assets increased by about \$657,000, or 8%. The majority of this increase occurred in current and other assets, where the ESC experienced increases in cash and investments and in accounts receivable due to additional services and programs added during the fiscal year. These increases were offset somewhat by a decrease in intergovernmental receivables, as Recovery Act funding wound down in fiscal year 2012.

Total liabilities increased by \$239,000, or 5%. This was mainly attributable to an increase in accrued wages and benefits, where the ESC added personnel to provide the additional services and experienced increases in insurance premiums.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Management's Discussion and Analysis
Year Ended June 30, 2013
Unaudited

B. Governmental Activities during fiscal year 2013

The following table presents a condensed summary of the ESC's activities during fiscal year 2013 and 2012 and the resulting change in net position:

| | <u>FY2013</u> | <u>FY2012</u> |
|------------------------------------|----------------------|----------------------|
| Revenues: | | |
| Program revenues: | | |
| Charges for services and sales | \$ 14,751,541 | 7,245,334 |
| Operating grants and contributions | 6,098,997 | 6,864,150 |
| Total program revenues | <u>20,850,538</u> | <u>14,109,484</u> |
| General revenues: | | |
| Grants and entitlements | 2,397,984 | 1,835,404 |
| Investment earnings | 1,107 | 511 |
| Miscellaneous | 707,262 | 654,707 |
| Total general revenues | <u>3,106,353</u> | <u>2,490,622</u> |
| Total revenues | <u>23,956,891</u> | <u>16,600,106</u> |
| Expenses: | | |
| Instruction | 7,739,720 | 2,825,515 |
| Support services: | | |
| Pupil | 5,827,529 | 4,063,924 |
| Instructional staff | 2,391,098 | 2,034,933 |
| Governing Board | 10,654 | 22,198 |
| Administration | 3,197,840 | 2,782,701 |
| Fiscal | 563,185 | 359,129 |
| Operation and maintenance of plant | 1,214,326 | 1,004,871 |
| Pupil transportation | 205,761 | 206,083 |
| Central | 2,272,160 | 2,103,654 |
| Interest and fiscal charges | 116,653 | 120,340 |
| Total expenses | <u>23,538,926</u> | <u>15,523,348</u> |
| Change in net position | 417,965 | 1,076,758 |
| Beginning net position | <u>4,162,263</u> | <u>3,085,505</u> |
| Ending net position | <u>\$ 4,580,228</u> | <u>4,162,263</u> |

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis

Year Ended June 30, 2013

Unaudited

Of the total governmental activities revenues of \$23,956,891, \$20,850,538 (87%) is from program revenue. This means that the ESC relies on general revenues to provide additional funding for the remaining cost of services provided to the citizens. Of those general revenues, \$2,397,984 (77%) is from state funding.

The ESC experienced an increase of \$7.4 million, or 44%, in total revenue and an increase of \$8 million, or 52%, in total expenses during the fiscal year. These significant increases were due to additional services and programs added during the fiscal year to fulfill districts' needs, including speech language services, school psychology services, OT/PT services, nursing services, and offering more profession development services. Additionally, the ESC implemented, in conjunction with the Southwest Ohio Council of Governments, the AESOP program during the fiscal year, an automatic substitute placement and management system. Finally, the ESC saw a significant increase in preschool contracts and entered into a collaborative agreement with the City of Monroe and Monroe Local Schools to share technology services.

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 89% of the cost of the general government programs was recouped in program revenues. Support services costs were \$15,682,553, but program revenue contributed to fund 86% of those costs. Thus, general revenues were used to support of remainder of the support services costs.

Governmental Activities

| | <u>Total Cost of Services</u> | <u>Program Revenue</u> | <u>Revenues as a % of Total Costs</u> | <u>Net Cost of Services</u> |
|-----------------------------|-----------------------------------|----------------------------|---|---------------------------------|
| Instruction | \$ 7,739,720 | 7,389,944 | 95% | 349,776 |
| Support services | 15,682,553 | 13,460,594 | 86% | 2,221,959 |
| Interest and fiscal charges | <u>116,653</u> | <u>-</u> | 0% | <u>116,653</u> |
| Total | \$ <u>23,538,926</u> | <u>20,850,538</u> | <u>89%</u> | <u>2,688,388</u> |

FINANCIAL ANALYSIS OF THE ESC'S INDIVIDUAL FUNDS

Governmental funds

The ESC has two major governmental funds: the General Fund and the Federal Head Start Fund. Assets of these two funds comprise \$6,537,405 (99.1%) of the total \$6,599,950 in governmental funds assets.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Management's Discussion and Analysis
Year Ended June 30, 2013
Unaudited

General Fund. Fund balance at June 30, 2013 was \$1,598,059, with an unassigned fund balance of \$1,317,337. The fund balance increased by \$631,030. The unassigned fund balance represents approximately 8% of current-year general fund expenditures. The increase in general fund revenues and expenditures were attributable to the additional services and programs discussed previously. The ESC was able to maintain an operating margin of approximately 4%, allowing fund balance to continue to increase.

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, 2013 will be used to meet program requirements. The decrease in fund balance was attributable to timing of payments.

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 level of expenditures, which is the legal level 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. Overall, the final budgets increased from the original budgets based on anticipation of increases in contracted services and programs previously discussed.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. At June 30, 2013, the ESC had invested in capital assets, including furniture, equipment, vehicles, and buildings and improvements. See Note 3 to the financial statements for more detail.

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

| | | <u>FY2013</u> | <u>FY2012</u> |
|----------------------------|----|-------------------------|-------------------------|
| Land | \$ | 477,184 | 477,184 |
| Equipment and furniture | | 339,089 | 338,628 |
| Vehicles | | 83,302 | 98,345 |
| Buildings and improvements | | <u>1,976,118</u> | <u>2,000,359</u> |
| Total | \$ | <u><u>2,875,693</u></u> | <u><u>2,914,516</u></u> |

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Management's Discussion and Analysis
Year Ended June 30, 2013
Unaudited

Debt. The ESC entered into a \$2,937,000 lease-purchase agreement for the purchase and improvement of new office facilities in October 2009 and is scheduled to mature in December 2031. See Note 7 to the financial statements for more detail.

ECONOMIC FACTORS

House Bill 59 went into effective October 1, 2013, adjusting the State funding for supervisory allowances to equal thirty-seven dollars times its student count for fiscal year 2014 and thirty-five dollars times its student count for fiscal year 2015. The impact to the ESC for fiscal year 2014 will be a reduction of \$869,000 in supervisory allowances. However, this reduction will be recouped through direct billing to districts for services.

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, 400 N. Erie Blvd. Suite A, Hamilton, Ohio 45011.

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BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Position

June 30, 2013

| | <u>Governmental Activities</u> |
|---------------------------------------|------------------------------------|
| Assets: | |
| Equity in pooled cash and investments | \$ 2,134,253 |
| Receivables: | |
| Accounts | 455,113 |
| Intergovernmental | 3,812,541 |
| Nondepreciable capital assets | 477,184 |
| Depreciable capital assets, net | <u>2,398,509</u> |
| Total assets | <u>9,277,600</u> |
| Liabilities: | |
| Accounts payable | 104,105 |
| Accrued wages and benefits | 1,246,805 |
| Intergovernmental payable | 157,222 |
| Accrued interest payable | 9,253 |
| Noncurrent liabilities: | |
| Due within one year | 204,305 |
| Due within more than one year | <u>2,975,682</u> |
| Total liabilities | <u>4,697,372</u> |
| Net Position: | |
| Net investment in capital assets | 180,693 |
| Restricted for: | |
| Head Start programs | 3,055,221 |
| Other purposes | 60,050 |
| Unrestricted | <u>1,284,264</u> |
| Total net position | <u>\$ 4,580,228</u> |

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Activities
Year Ended June 30, 2013

| | Expenses | Program Revenues | | Net (Expense) |
|---|----------------------|--------------------------------------|--|---|
| | | Charges for Services and Sales | Operating Grants and Contributions | Revenue and Changes in Net Position |
| | | | | Governmental Activities |
| Governmental Activities: | | | | |
| Instruction: | | | | |
| Regular | \$ 4,419,970 | 4,281,137 | - | \$ (138,833) |
| Special education | 3,319,750 | 2,261,291 | 847,516 | (210,943) |
| Support services: | | | | |
| Pupil | 5,827,529 | 2,786,289 | 2,779,257 | (261,983) |
| Instructional staff | 2,391,098 | 1,546,278 | 751,398 | (93,422) |
| Governing Board | 10,654 | - | - | (10,654) |
| Administration | 3,197,840 | 874,158 | 1,081,343 | (1,242,339) |
| Fiscal | 563,185 | - | 62,001 | (501,184) |
| Operation and maintenance of plant | 1,214,326 | 662,698 | 553,587 | 1,959 |
| Pupil transportation | 205,761 | 192,377 | - | (13,384) |
| Central | 2,272,160 | 2,147,313 | 23,895 | (100,952) |
| Interest and fiscal charges | 116,653 | - | - | (116,653) |
| Total Governmental Activities | \$ <u>23,538,926</u> | <u>14,751,541</u> | <u>6,098,997</u> | <u>(2,688,388)</u> |
| General Revenues: | | | | |
| Grants and entitlements not restricted to specific programs | | | | 2,397,984 |
| Investment earnings | | | | 1,107 |
| Miscellaneous | | | | <u>707,262</u> |
| Total general revenues | | | | <u>3,106,353</u> |
| Change in net position | | | | 417,965 |
| Net position beginning of year | | | | <u>4,162,263</u> |
| Net position end of year | | | \$ | <u><u>4,580,228</u></u> |

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Balance Sheet
 Governmental Funds
 June 30, 2013

| | General | Federal Head Start | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|--------------------------------|--------------------------------|
| Assets: | | | | |
| Equity in pooled cash and investments \$ | 1,845,459 | 230,000 | 58,794 | 2,134,253 |
| Receivables: | | | | |
| Accounts | 455,113 | - | - | 455,113 |
| Intergovernmental | 175,612 | 3,633,178 | 3,751 | 3,812,541 |
| Interfund receivable | 198,043 | - | - | 198,043 |
| Total assets | <u>2,674,227</u> | <u>3,863,178</u> | <u>62,545</u> | <u>6,599,950</u> |
| Liabilities: | | | | |
| Accounts payable | 72,756 | 28,953 | 2,396 | 104,105 |
| Accrued wages and benefits | 916,979 | 329,233 | 593 | 1,246,805 |
| Intergovernmental payable | 61,097 | 96,125 | - | 157,222 |
| Interfund payable | - | 195,543 | 2,500 | 198,043 |
| Compensated absences payable | 22,958 | 6,140 | - | 29,098 |
| Deferred revenue | 2,378 | 2,860,446 | - | 2,862,824 |
| Total liabilities | <u>1,076,168</u> | <u>3,516,440</u> | <u>5,489</u> | <u>4,598,097</u> |
| Fund Balances: | | | | |
| Restricted | - | 346,738 | 60,050 | 406,788 |
| Assigned | 280,722 | - | - | 280,722 |
| Unassigned | 1,317,337 | - | (2,994) | 1,314,343 |
| Total fund balances | <u>1,598,059</u> | <u>346,738</u> | <u>57,056</u> | <u>2,001,853</u> |
| Total liabilities and fund balances | <u>\$ 2,674,227</u> | <u>3,863,178</u> | <u>62,545</u> | |

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

| | |
|--|---------------------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 2,875,693 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds. | 2,862,824 |
| Long-term liabilities, including lease purchase and compensated absences, are not due and payable in the current period and therefore are not reported in the funds: | |
| Lease purchase agreement | (2,695,000) |
| Accrued interest | (9,253) |
| Compensated absences | (455,889) |
| Net position of governmental activities | <u>\$ 4,580,228</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, 2013

| | General | Federal Head Start | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-----------------------|--------------------------------|--------------------------------|
| Revenues: | | | | |
| Contractual services | \$ 14,755,227 | - | - | 14,755,227 |
| Interest | 1,107 | - | - | 1,107 |
| Intergovernmental | 2,397,984 | 6,149,157 | 76,251 | 8,623,392 |
| Other local revenues | 712,854 | - | - | 712,854 |
| Total revenues | <u>17,867,172</u> | <u>6,149,157</u> | <u>76,251</u> | <u>24,092,580</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,420,857 | - | 2,000 | 4,422,857 |
| Special education | 2,445,079 | 866,510 | - | 3,311,589 |
| Support services: | | | | |
| Pupil | 3,000,863 | 2,782,498 | 25,783 | 5,809,144 |
| Instructional staff | 1,614,837 | 768,238 | - | 2,383,075 |
| Governing Board | 10,654 | - | - | 10,654 |
| Administration | 2,031,071 | 1,103,072 | 3,605 | 3,137,748 |
| Fiscal | 421,199 | 63,391 | - | 484,590 |
| Business | 71,432 | - | - | 71,432 |
| Operation and maintenance of plant | 682,787 | 565,994 | - | 1,248,781 |
| Pupil transportation | 196,717 | - | - | 196,717 |
| Central | 2,133,541 | 8,020 | 109,521 | 2,251,082 |
| Debt Service: | | | | |
| Principal | 88,000 | - | - | 88,000 |
| Interest and fiscal charges | 116,955 | - | - | 116,955 |
| Total expenditures | <u>17,233,992</u> | <u>6,157,723</u> | <u>140,909</u> | <u>23,532,624</u> |
| Excess of revenues over (under) expenditures | <u>633,180</u> | <u>(8,566)</u> | <u>(64,658)</u> | <u>559,956</u> |
| Other financing sources (uses): | | | | |
| Transfers in | - | - | 2,150 | 2,150 |
| Transfers out | (2,150) | - | - | (2,150) |
| Total other financing sources (uses): | <u>(2,150)</u> | <u>-</u> | <u>2,150</u> | <u>-</u> |
| Net change in fund balance | 631,030 | (8,566) | (62,508) | 559,956 |
| Fund balance, beginning of year | 967,029 | 355,304 | 119,564 | 1,441,897 |
| Fund balance, end of year | \$ <u>1,598,059</u> | <u>346,738</u> | <u>57,056</u> | <u>2,001,853</u> |

See accompanying notes to the basic financial statements.

Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2013

Net Change in Fund Balances - Total Governmental Funds \$ 559,956

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

Governmental funds report capital outlay 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 | 143,458 |
| Depreciation expense | (179,061) |

| | |
|---|---------|
| Losses on the sale or disposal of capital assets are reported on the statement of activities and not as expenses of the governmental funds. | (3,220) |
|---|---------|

| | |
|---|--------|
| Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | 88,000 |
|---|--------|

| | |
|---|-----|
| In the statement of activities, interest is accrued on the outstanding lease-purchase, whereas in governmental funds, an interest expenditure is reported when due. | 302 |
|---|-----|

| | |
|--|----------|
| Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current resources and therefore are not reported as expenditures in governmental funds. | (55,781) |
|--|----------|

| | |
|---|------------------|
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. | <u>(135,689)</u> |
|---|------------------|

| | |
|---|-------------------|
| Change in Net Position of Governmental Activities | \$ <u>417,965</u> |
|---|-------------------|

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Position

Fiduciary Funds

June 30, 2013

| | <u>Private Purpose Trusts</u> | <u>Agency Funds</u> |
|---------------------------------------|---------------------------------------|-------------------------|
| ASSETS | | |
| Equity in pooled cash and investments | \$ 29,117 | 798,770 |
| Intergovernmental receivable | <u>-</u> | <u>383,880</u> |
| Total assets | <u>29,117</u> | <u>1,182,650</u> |
| LIABILITIES | | |
| Accounts payable | 1,000 | 224,612 |
| Due to other governments | <u>-</u> | <u>958,038</u> |
| Total liabilities | <u>1,000</u> | <u>1,182,650</u> |
| NET POSITION | | |
| Held in trust | \$ <u>28,117</u> | |

See accompanying notes to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Changes in Net Position

Fiduciary Funds

Year Ended June 30, 2013

| | | Private- Purpose Trusts |
|--|----|-------------------------------|
| Additions: | | |
| Interest income | \$ | <u>21</u> |
| Total additions | | <u>21</u> |
| Deductions: | | |
| Community gifts, awards and scholarships | | <u>1,000</u> |
| Total deductions | | <u>1,000</u> |
| Change in net position | | (979) |
| Net position, beginning of year | | <u>29,096</u> |
| Net position, end of year | \$ | <u><u>28,117</u></u> |

See accompanying notes to the basic financial statements.

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BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

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 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 Family and Children First Council, but is not accountable as defined in GASB Statement No. 61 for this organization, so these activities have been included in the ESC's financial statements as agency funds. 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 two organizations, one of which is defined as an insurance purchasing pool and one is a jointly governed organization. These organizations are the Southwest Ohio Computer Association and the Butler Health Plan. The organizations are presented in Notes 10 and 11 to the basic financial statements.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

B. Basis of Presentation

Government-wide Financial Statements. The statement of net position 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.

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.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

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 position and changes in net position. 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 expenses/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.

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

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

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 2013, 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, 2013.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

Under existing Ohio statutes, all investment earnings are assigned to the General Fund except for those specifically related to the private-purpose trust funds 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 except for land. Depreciation is computed using the straight-line method over the following useful lives:

| | |
|---------------------------|-------------|
| Vehicles | 10 years |
| Equipment and furniture | 5 years |
| Building and improvements | 20-50 years |

G. Interfund Balances

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

H. Compensated Absences

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

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

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 of 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.

I. 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.

J. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in a spendable form” criterion includes items that are not expected to be converted to cash. The ESC did not have any nonspendable fund balances at year-end.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Committed – The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the ESC Governing Board. Those committed amounts cannot be used for any other purpose unless the ESC Governing Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. The ESC did not have any committed fund balances at year-end.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

Assigned – Amounts in the assigned fund balance classification are intended to be used by the ESC for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by the ESC Governing Board. The Board has authorized the Treasurer to assign fund balance for purchases on order provided those amounts have been lawfully appropriated.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The ESC applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first, followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

K. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets 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 position is 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 position is 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, 2013

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;
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).

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

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 ESC's deposits may not be returned to it. The ESC does not have a custodial credit risk policy. At year-end, \$292,183 of the ESC's bank balance of \$792,183 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 ESC's name.

Investments

The ESC's investments at June 30, 2013 consist of an investment in STAROhio with a fair value of \$2,353,983. 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, 2013

3. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2013 was as follows:

| | Balance <u>7/1/12</u> | <u>Additions</u> | <u>Disposals</u> | Balance <u>6/30/13</u> |
|---------------------------------------|----------------------------|------------------------|-----------------------|---------------------------|
| <i>Governmental Activities</i> | | | | |
| Nondepreciable: | | | | |
| Land | \$ 477,184 | - | - | 477,184 |
| Depreciable: | | | | |
| Equipment and furniture | 1,144,268 | 118,658 | (20,437) | 1,242,489 |
| Vehicles | 182,926 | - | - | 182,926 |
| Buildings and improvements | <u>2,178,540</u> | <u>24,800</u> | <u>-</u> | <u>2,203,340</u> |
| Subtotal | <u>3,505,734</u> | <u>143,458</u> | <u>(20,437)</u> | <u>3,628,755</u> |
| Totals at historical cost | <u>3,982,918</u> | <u>143,458</u> | <u>(20,437)</u> | <u>4,105,939</u> |
| Less accumulated depreciation: | | | | |
| Equipment and furniture | 805,640 | 114,977 | (17,217) | 903,400 |
| Vehicles | 84,581 | 15,043 | - | 99,624 |
| Buildings and improvements | <u>178,181</u> | <u>49,041</u> | <u>-</u> | <u>227,222</u> |
| Total accumulated depreciation | <u>1,068,402</u> | <u>179,061</u> | <u>(17,217)</u> | <u>1,230,246</u> |
| Capital assets, net | \$ <u><u>2,914,516</u></u> | <u><u>(35,603)</u></u> | <u><u>(3,220)</u></u> | <u><u>2,875,693</u></u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|------------------------------------|--------------------------|
| Instruction: | |
| Regular | \$ 1,482 |
| Special | 2,119 |
| Support services: | |
| Pupil | 22,211 |
| Administration | 121,484 |
| Fiscal | 1,868 |
| Operation and maintenance of plant | 1,838 |
| Pupil transportation | 7,439 |
| Central | <u>20,620</u> |
| Total depreciation expense | \$ <u><u>179,061</u></u> |

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

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.

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, disability and survivor 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 can be obtained on SERS' website at www.ohsers.org under Employers/Audit Resources.

Plan members are required to contribute 10% of their annual covered salary and the ESC is required to contribute 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 Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund and Health Care Fund) of the System. For fiscal year ending June 30, 2013, the allocation to pension and death benefits is 13.10%. The remaining 0.90% of the 14% employer contribution rate is allocated to the Health Care and Medicare B Funds. The ESC's required contributions to SERS for the fiscal years ended June 30, 2013, 2012, and 2011 were approximately \$1,124,000, \$1,048,000 and \$1,062,000, respectively. 94% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011, respectively. The unpaid contribution for fiscal year 2013 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 Ohio), a state-wide, cost-sharing, multiple-employer public employee retirement system for licensed teachers and other faculty members employed by the ESC. STRS Ohio provides basic retirement benefits, disability, survivor and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio 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 STRS Ohio, 275 East Broad Street, Columbus, Ohio 43215-3771, or by visiting www.strsoh.org.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan benefits are established under Chapter 3307 of the Ohio Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing services, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan benefits are established under Sections 3307.80 to 3307.89 of the Ohio Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

Under the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or equivalent lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65, once employment is terminated.

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

The DB and Combined plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursements of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

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 members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

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 Ohio, 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, 2013, 2012, and 2011 were \$726,000, \$449,000, and \$294,000, respectively; 100% has been contributed for all three fiscal years.

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, 2013, members of the Board of Education have elected social security. The Board's liability is 6.2% of wages paid.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Notes to the Basic Financial Statements
Year Ended June 30, 2013

6. POSTEMPLOYMENT BENEFITS

The ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by state statute.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to 3307 of the Ohio Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care for years ended June 30, 2013, 2012, and 2011. The 14% employer contribution rate is the maximum rate established under Ohio law. The ESC's contributions to STRS Ohio allocated to post-employment health care for the fiscal years ended June 30, 2013, 2012, and 2011 were \$52,000, \$32,000, and \$21,000, respectively.

SERS administers two postemployment benefit plans:

Medicare Part B Plan - The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2013 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50. The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2013, the actuarially required allocation is 0.74%. The ESC's contributions for the years ended June 30, 2013, 2012, and 2011 were approximately \$59,000, \$56,000, and \$58,000, respectively. 94% has been contributed for fiscal year 2013 and 100% for fiscal years 2012 and 2011, respectively. The unpaid contribution for fiscal year 2013 is recorded as a liability within the respective funds.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

Health Care Plan - ORC 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health care plan or program. SERS offers several types of health plans from various vendors, including HMO's, PPO's, Medicare Advantage and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORC provides the statutory authority to fund SERS' postemployment benefits through employer contributions. Active members do not make contributions to the postemployment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the year ended June 30, 2013, the health care allocation is 0.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the minimum compensation level was established at \$20,525. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The ESC's contributions assigned to health care for years ended June 30, 2013, 2012, and 2011 were \$13,000, \$41,000, and \$108,000, respectively.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility and retirement status. The financial reports of SERS' Health Care and Medicare B plans are included in its Comprehensive Annual Financial Report. The report can be obtained on SERS' website.

7. LONG-TERM OBLIGATIONS

The changes in the ESC's long-term obligations during fiscal year 2013 were as follows:

| | Balance | | | Balance | Due within |
|--------------------------|--------------|-----------|------------|-----------|------------|
| | 7/1/12 | Additions | Reductions | 6/30/13 | One Year |
| Lease-Purchase Agreement | \$ 2,783,000 | - | (88,000) | 2,695,000 | 92,000 |
| Compensated Absences | 403,837 | 154,734 | (73,584) | 484,987 | 112,305 |
| Total | \$ 3,186,837 | 154,734 | (161,584) | 3,179,987 | 204,305 |

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements

Year Ended June 30, 2013

In October, 2009, the ESC entered into a lease-purchase agreement in the amount of \$2,937,000 for the purchase of a building and improvements through U.S. Bank. The final payment will be made in December 2031. Principal and interest payments were made from the General Fund. The land, building, improvements, and equipment acquired by this lease-purchase agreement were \$2,900,000.

The following is a schedule of future minimum lease payments required under the lease-purchase agreement and the present value of the minimum lease payments as of June 30, 2013:

| Fiscal Year Ending June 30, | | |
|---|----|-------------------------|
| 2014 | \$ | 205,112 |
| 2015 | | 206,078 |
| 2016 | | 205,851 |
| 2017 | | 206,430 |
| 2018 | | 206,797 |
| 2019 - 2023 | | 1,035,001 |
| 2024 - 2028 | | 1,039,716 |
| 2029 - 2032 | | <u>833,165</u> |
| Total | | 3,938,150 |
| Less amount representing interest | | <u>(1,243,150)</u> |
| Present value of minimum lease payments | \$ | <u><u>2,695,000</u></u> |

BUTLER COUNTY EDUCATIONAL SERVICE CENTER**Notes to the Basic Financial Statements****Year Ended June 30, 2013****8. FUND BALANCES**

Fund balance is classified as restricted, assigned and/or unassigned based primarily on the extent to which the ESC is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

| <u>Fund Balances</u> | <u>General</u> | <u>Federal Head Start</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|------------------------------------|---------------------|-------------------------------|---|---|
| <i>Restricted for</i> | | | | |
| Public School Preschool | \$ - | - | 625 | 625 |
| Data Communications | - | - | 13,893 | 13,893 |
| Resident Educator | - | - | 2,450 | 2,450 |
| Etech Quality Matter | - | - | 12,189 | 12,189 |
| Home Choice | - | - | 30,893 | 30,893 |
| Federal Head Start | - | 346,738 | - | 346,738 |
| <i>Total Restricted</i> | - | 346,738 | 60,050 | 406,788 |
| <i>Assigned to</i> | | | | |
| Public School Support | 11,357 | | | 11,357 |
| Severances | 20,000 | | | 20,000 |
| Encumbrances | 249,365 | - | - | 249,365 |
| <i>Total Assigned</i> | 280,722 | - | - | 280,722 |
| <i>Unassigned (Deficit)</i> | 1,317,337 | - | (2,994) | 1,314,343 |
| <i>Total Fund Balance</i> | \$ 1,598,059 | 346,738 | 57,056 | 2,001,853 |

At June 30, 2013, the Quality Matters Fund had a deficit fund balance of \$2,994. 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.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Notes to the Basic Financial Statements
Year Ended June 30, 2013

9. INTERFUND TRANSACTIONS

Interfund transactions at June 30, 2013 consisted of the following:

| | Interfund | | Transfers | |
|------------------------------|-------------------|----------------|--------------|--------------|
| | Receivable | Payable | In | Out |
| General Fund | \$ 198,043 | - | - | 2,150 |
| Federal Head Start Fund | - | 195,543 | - | - |
| Non-major Governmental Funds | - | 2,500 | 2,150 | - |
| Total | \$ <u>198,043</u> | <u>198,043</u> | <u>2,150</u> | <u>2,150</u> |

The interfund loans were made to provide operating capital. Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

10. JOINTLY GOVERNED ORGANIZATION

Southwestern Ohio Computer Association

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

11. INSURANCE PURCHASING POOL

Butler Health Plan

The ESC participates in the Butler Health Plan (BHP), 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 BHP at PO Box 526, Middletown, Ohio 45042.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER
Notes to the Basic Financial Statements
Year Ended June 30, 2013

12. 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, 2013.

Litigation

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

13. CHANGE IN ACCOUNTING PRINCIPLES

The ESC adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus and amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. GASB Statement No. 62 incorporates Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants' (AICPA) accounting and financial reporting guidance issued on or before November 30, 1989 into GASB authoritative literature. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in the statement of financial position.

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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, 2013

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | Variance <u>With Final Budget</u> |
|--|----------------------------|-------------------------|-------------------|--|
| Revenues: | | | | |
| Contractual services | \$ 12,655,317 | 10,947,543 | 10,947,543 | - |
| Earnings on investments | 1,000 | 1,107 | 1,107 | - |
| Intergovernmental | 2,834,000 | 2,375,043 | 2,375,043 | - |
| Other local revenues | <u>590,000</u> | <u>4,289,755</u> | <u>4,289,755</u> | - |
| Total revenues | <u>16,080,317</u> | <u>17,613,448</u> | <u>17,613,448</u> | - |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 4,438,396 | 4,510,953 | 4,500,999 | 9,954 |
| Special education | 2,607,174 | 2,364,065 | 2,340,127 | 23,938 |
| Support services: | | | | |
| Pupil | 2,239,433 | 2,928,857 | 2,880,923 | 47,934 |
| Instructional staff | 1,366,709 | 1,627,360 | 1,604,874 | 22,486 |
| Board of Education | 23,852 | 11,661 | 11,661 | - |
| Administration | 1,781,661 | 2,187,795 | 2,128,814 | 58,981 |
| Fiscal | 401,687 | 439,629 | 429,329 | 10,300 |
| Business | - | 70,162 | 69,703 | 459 |
| Operation and maintenance of plant | 539,697 | 741,463 | 714,962 | 26,501 |
| Pupil transportation | 199,385 | 200,459 | 199,541 | 918 |
| Central | 2,107,068 | 2,270,260 | 2,239,222 | 31,038 |
| Capital outlay | <u>-</u> | <u>204,955</u> | <u>204,955</u> | - |
| Total expenditures | <u>15,705,062</u> | <u>17,557,619</u> | <u>17,325,110</u> | <u>232,509</u> |
| Excess of revenues over expenditures | 375,255 | 55,829 | 288,338 | 232,509 |
| Other financing sources (uses): | | | | |
| Transfers in | - | 65,000 | 65,000 | - |
| Transfers out | - | (2,150) | (2,150) | - |
| Advances in | 430,000 | 231,814 | 231,814 | - |
| Advances out | <u>(430,000)</u> | <u>(373,655)</u> | <u>(373,655)</u> | - |
| Total other financing sources (uses): | <u>-</u> | <u>(78,991)</u> | <u>(78,991)</u> | - |
| Change in fund balance | 375,255 | (23,162) | 209,347 | 232,509 |
| Fund balance, beginning of year | 1,066,199 | 1,066,199 | 1,066,199 | |
| Prior year encumbrances appropriated | <u>221,265</u> | <u>221,265</u> | <u>221,265</u> | |
| Fund balance, end of year | \$ <u>1,662,719</u> | <u>1,264,302</u> | <u>1,496,811</u> | |

See accompanying notes to supplementary 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, 2013

| | | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance With Final Budget</u> |
|--|----|----------------------------|-------------------------|---------------------|---|
| Revenues: | | | | | |
| Intergovernmental | \$ | <u>9,758,197</u> | <u>6,174,884</u> | <u>6,174,884</u> | <u>-</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Special education | | 2,016,406 | 928,230 | 908,862 | 19,368 |
| Support services: | | | | | |
| Pupil | | 3,953,299 | 2,928,358 | 2,901,485 | 26,873 |
| Instructional staff | | 1,342,142 | 786,316 | 786,316 | - |
| Administration | | 1,465,661 | 1,164,034 | 1,152,866 | 11,168 |
| Fiscal | | 119,932 | 64,995 | 64,995 | - |
| Operation and maintenance of plant | | 848,872 | 620,826 | 620,826 | - |
| Central | | <u>11,885</u> | <u>8,039</u> | <u>8,039</u> | <u>-</u> |
| Total expenditures | | <u>9,758,197</u> | <u>6,500,798</u> | <u>6,443,389</u> | <u>57,409</u> |
| Excess of revenues | | | | | |
| over/(under) expenditures | | - | (325,914) | (268,505) | 57,409 |
| Other financing sources (uses): | | | | | |
| Transfers in | | - | 142,289 | 142,289 | - |
| Transfers out | | - | (142,289) | (142,289) | - |
| Advances in | | - | 230,000 | 230,000 | - |
| Advances out | | <u>-</u> | <u>(143,466)</u> | <u>(143,466)</u> | <u>-</u> |
| Total other financing sources (uses): | | <u>-</u> | <u>86,534</u> | <u>86,534</u> | <u>-</u> |
| Change in fund balance | | - | (239,380) | (181,971) | 57,409 |
| Fund balance, beginning of year | | - | - | - | |
| Prior year encumbrances appropriated | | <u>183,097</u> | <u>183,097</u> | <u>183,097</u> | |
| Fund balance, end of year | \$ | <u><u>183,097</u></u> | <u><u>(56,283)</u></u> | <u><u>1,126</u></u> | |

See accompanying notes to supplementary information.

BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to Supplementary Information
 Year Ended June 30, 2013

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 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 2013. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated.

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:

Certain funds accounted for as separate funds internally with legally adopted budgets (budget basis) do not meet definition of special revenue funds under GASB Statement No. 54 and were reported with the General Fund (GAAP basis).

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 restricted or assigned fund balance (GAAP basis).

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

| | <u>General</u> | <u>Federal Head Start</u> |
|--|-------------------|-------------------------------|
| Net change in fund balance - GAAP Basis | \$ 631,030 | (8,566) |
| Increase / (decrease): | | |
| Due to inclusion of Public School Support Fund | (6,301) | - |
| Due to revenues | (247,423) | 25,727 |
| Due to expenditures | 226,172 | (56,792) |
| Due to other sources (uses) | (76,841) | 86,534 |
| Due to encumbrances | <u>(317,290)</u> | <u>(228,874)</u> |
| Net change in fund balance - Budget Basis | \$ <u>209,347</u> | <u>(181,971)</u> |

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Butler County Educational Service Center
Butler County

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2013**

| FEDERAL GRANTOR Pass Through Grantor Program / Cluster Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Expenditures |
|---|---|------------------------------------|--------------------|---------------------|
| U.S. DEPARTMENT OF AGRICULTURE | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Child Care and Adult Care Food Program | CC-MO 12 | 10.558 | \$ 148,081 | 148,081 |
| Child Care and Adult Care Food Program | CC-MO 13 | 10.558 | 203,467 | 203,467 |
| Total U.S. Department of Agriculture | | | 351,548 | 351,548 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | | |
| Head Start Grant | | 93.600 | 5,823,334 | 6,081,793 |
| Total U.S. Department of Health and Human Services | | | 5,823,334 | 6,081,793 |
| U.S. DEPARTMENT OF EDUCATION | | | | |
| <i>Passed Through Ohio Department of Education</i> | | | | |
| Improving Teacher Quality | | 84.367 | \$25,000 | \$25,000 |
| ARRA - Race to the Top | | 84.395 | 5,600 | 3,150 |
| Total U.S. Department of Education | | | 5,600 | 28,150 |
| Total Federal Awards Expenditures | | | \$6,174,882 | \$6,461,491 |

The accompanying notes are an integral part of this schedule.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2013**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Receipts and Expenditures Schedule (the Schedule) reports the Butler County Educational Service Center's (the Center's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION

The Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the Center to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The Center has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

Butler County Educational Service Center
Butler County
400 N. Erie Blvd, Suite A
Hamilton, Ohio 45011

To the Board of Education:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center, Butler County, Ohio (the Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 13, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Center's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Center's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material of financial misstatement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

February 13, 2014



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Butler County Educational Service Center
Butler County
400 N. Erie Blvd, Suite A
Hamilton, Ohio 45011

To the Board of Education:

Report on Compliance for Each Major Federal Program

We have audited the Butler County Educational Service Center's (the Center) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect the Butler County Educational Service Center's major federal program for the year ended June 30, 2013. The *Summary of Audit Results* in the accompanying schedule of findings identifies the Center's major federal program.

Management's Responsibility

The Center's Management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

Auditor's Responsibility

Our responsibility is to opine on the Center's compliance for each of the Center's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the Center's major program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on The Major Federal Program

In our opinion, the Butler County Educational Service Center complied, in all material respects with the compliance requirements referred to above that could directly and materially affect the major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the Center's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with federal program's applicable compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

This report only describes the scope of our internal control compliance tests and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

February 13, 2014

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER
BUTLER COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2013**

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS FOR FEDERAL AWARDS

None

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Dave Yost • 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
MARCH 04, 2014**