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## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Basic Financial Statements

Year Ended June 30, 2011

With Independent Auditors' Report

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## INDEPENDENT AUDITORS' REPORT

To the Governing Board  
Butler County Educational Service Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center (the Service Center), as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Service Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the 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 as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, during the year ended June 30, 2011, the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2011, on our consideration of the Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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For the budgetary comparison information on pages 35 through 38, we have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 and is not a required part of the basic financial statements of the Service Center. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
October 26, 2011

## 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, 2011. 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 2011 are listed below:

- ✓ The assets of the ESC exceeded its liabilities at year-end by \$3,402,766. Of this amount, \$2,748,985 is restricted.
- ✓ In total, net assets decreased by \$736,593.
- ✓ The ESC had \$14,383,903 in expenses related to governmental activities; \$10,803,661 of these expenses were offset by program specific charges for services, grants or contributions. General revenue of \$2,843,649, made up primarily of State Foundation payments provided additional funding for these programs.
- ✓ The General Fund balance decreased by \$571,821 from \$1,129,419 at June 30, 2010 to \$557,598 at June 30, 2011.

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

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

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Management's Discussion and Analysis**

**Year Ended June 30, 2011**

**Unaudited**

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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, 2011**  
**Unaudited**

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

The following table presents a condensed summary of the ESC's overall financial position at June 30, 2011 and 2010:

		<u><b>FY2011</b></u>	<u><b>FY2010</b></u>
Current and other assets	\$	4,520,022	6,526,401
Capital assets		<u>3,227,261</u>	<u>2,720,940</u>
Total assets		<u>7,747,283</u>	<u>9,247,341</u>
Long-term liabilities		3,245,531	3,243,759
Other liabilities		<u>1,098,986</u>	<u>1,864,223</u>
Total liabilities		<u>4,344,517</u>	<u>5,107,982</u>
Net assets:			
Invested in capital assets, net of debt		360,261	883,618
Restricted:			
Head Start		2,747,235	3,013,621
Other purposes		1,750	46,847
Unrestricted		<u>293,520</u>	<u>195,273</u>
Total net assets	\$	<u><u>3,402,766</u></u>	<u><u>4,139,359</u></u>

Total assets decreased by \$1.5 million. Current and other assets decreased by approximately \$2 million due to spending the \$1 million balance in restricted cash associated with the completion of the new office facilities in October 2010 and a \$737,000 decrease in change in net assets. The ESC also experienced decreases of approximately \$224,000 in intergovernmental receivables due to winding down of Recovery Act funding. Capital assets increased by approximately \$506,000 due to incurring the remaining capital outlay during FY11 to complete the new office facilities.

Total liabilities decreased by \$763,000 primarily due to winding down of construction-related expenses and related payables during the year with completion of the new office facilities.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
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**Unaudited**

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**B. Governmental Activities during fiscal year 2011**

The following table presents a condensed summary of the ESC's activities during fiscal year 2011 and 2010 and the resulting change in net assets:

	<u><b>FY2011</b></u>	<u><b>FY2010</b></u>
<b>Revenues:</b>		
Program revenues:		
Charges for services and sales	\$ 4,550,409	4,834,811
Operating grants and contributions	<u>6,253,252</u>	<u>6,660,397</u>
Total program revenues	<u>10,803,661</u>	<u>11,495,208</u>
General revenues:		
Grants and entitlements	1,987,096	1,988,095
Contributions	-	646,048
Investment earnings	16,230	1,985
Miscellaneous	<u>840,323</u>	<u>512,003</u>
Total general revenues	<u>2,843,649</u>	<u>3,148,131</u>
<b>Total revenues</b>	<u>13,647,310</u>	<u>14,643,339</u>
<b>Expenses:</b>		
Instruction	2,440,214	2,616,409
Support services:		
Pupil	4,430,476	3,050,241
Instructional staff	1,817,359	2,133,285
Governing Board	12,826	19,358
Administration	1,487,220	946,381
Fiscal	371,901	564,594
Operation and maintenance of plant	1,733,482	1,966,145
Pupil transportation	155,899	224,112
Central	1,773,892	1,821,512
Interest and fiscal charges	<u>160,634</u>	<u>83,885</u>
<b>Total expenses</b>	<u>14,383,903</u>	<u>13,425,922</u>
<b>Change in net assets</b>	<u>\$ (736,593)</u>	<u>1,217,417</u>

Of the total governmental activities revenues of \$13,647,310, \$10,803,661 (79%) 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, \$1,987,096 (70%) is from state funding.

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**Management's Discussion and Analysis**  
**Year Ended June 30, 2011**  
**Unaudited**

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As noted above, there were significant decreases in operating grants and contributions due to winding down of the Recovery Act funding for the ESC's Head Start programs. Also, there were decreases in contributions due to receiving \$646,048 in FY2010 from the Center for Family Solutions toward leasehold improvements. Total expenses increased by approximately \$958,000 primarily due to having a full year of operations for Early Head Start program that started in February 2010.

***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 75% of the cost of the general government programs was recouped in program revenues. Support services costs were \$11,783,055, but program revenue contributed to fund 74% 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	\$ 2,440,214	2,073,938	85%	366,276
Support services	11,783,055	8,729,723	74%	3,053,332
Interest and fiscal charges	<u>160,634</u>	<u>-</u>	0%	<u>160,634</u>
<b>Total</b>	<b>\$ <u>14,383,903</u></b>	<b><u>10,803,661</u></b>	<b><u>75%</u></b>	<b><u>3,580,242</u></b>

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

**Governmental funds**

The ESC has three major governmental funds: the General Fund, the Federal Head Start Fund, and the ARRA-Early Head Start Fund. Assets of these three funds comprise \$4,513,760 (99.9%) of the total \$4,520,022 in governmental funds assets.

**General Fund.** Fund balance at June 30, 2011 was \$557,598, with an unassigned fund balance of \$314,348. The fund balance decreased by \$571,821. The unassigned fund balance represents approximately 4% of current-year general fund expenditures. Expenditures decreased from the prior year by approximately \$1.9 million due to the cost allocation plan shifting personnel costs towards the grant funds.

**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, 2011 will be used to meet program requirements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
**Year Ended June 30, 2011**  
**Unaudited**

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**ARRA-Early Head Start Fund.** This fund is used to account for the activity related to the federal grant for the ARRA-funded Early Head Start program. The fund balance at June 30, 2011 will be used to meet program requirements.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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

The annual appropriation resolution is legally enacted by the ESC at the fund, function and object level of expenditures, which are the legal levels of budgetary control. Formal budgetary integration is employed as a management control device during the year for all funds consistent with statutory provisions.

The schedule comparing the ESC's original and final budgets and actual results is included in the supplementary information. Overall, the final budgets increased from the original budgets based on anticipation of increases in contracted services with local school districts and anticipated capital expenditures to complete the improvements on the new office facilities.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** At June 30, 2011, the ESC had invested in capital assets, including furniture, equipment, vehicles, and buildings and improvements. The increase in capital assets is due to the purchase and improvements to new office facilities. See Note 4 to the financial statements for more detail.

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

		<u>FY2011</u>	<u>FY2010</u>
Land	\$	477,184	477,184
Construction in progress		-	1,547,354
Equipment and furniture		292,149	127,719
Vehicles		50,822	38,896
Buildings and improvements		<u>2,407,106</u>	<u>529,787</u>
Total	\$	<u><u>3,227,261</u></u>	<u><u>2,720,940</u></u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
**Management's Discussion and Analysis**  
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**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 made its first payment during FY2011. See Note 8 to the financial statements for more detail.

**ECONOMIC FACTORS**

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

Additionally, the ESC is faced with a 10% reduction in State funding in FY2012 and an additional 15% reduction in FY2013.

**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.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
<b>Assets:</b>	
Equity in pooled cash and investments	\$ 1,093,084
Receivables:	
Accounts	51,345
Intergovernmental	3,375,593
Nondepreciable capital assets	477,184
Depreciable capital assets, net	<u>2,750,077</u>
<b>Total assets</b>	<u>7,747,283</u>
<b>Liabilities:</b>	
Accounts payable	18,655
Accrued wages and benefits	859,123
Intergovernmental payable	211,365
Accrued interest payable	9,843
Noncurrent liabilities:	
Due within one year	167,696
Due within more than one year	<u>3,077,835</u>
<b>Total liabilities</b>	<u>4,344,517</u>
<b>Net Assets:</b>	
Invested in capital assets, net of related debt	360,261
Restricted for:	
Head Start programs	2,747,235
Other purposes	1,750
Unrestricted	<u>293,520</u>
<b>Total net assets</b>	\$ <u><u>3,402,766</u></u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Statement of Activities  
 Year Ended June 30, 2011

		<u>Program Revenues</u>		Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$ 469,629	346,406	-	\$ (123,223)
Special education	1,970,585	901,644	825,888	(243,053)
Support services:				
Pupil	4,430,476	712,281	3,150,501	(567,694)
Instructional staff	1,817,359	730,725	864,066	(222,568)
Governing Board	12,826	-	-	(12,826)
Administration	1,487,220	240,139	713,680	(533,401)
Fiscal	371,901	-	128,257	(243,644)
Operation and maintenance of plant	1,733,482	253,707	519,414	(960,361)
Pupil transportation	155,899	107,871	8,155	(39,873)
Central	1,773,892	1,257,636	43,291	(472,965)
Interest and fiscal charges	160,634	-	-	(160,634)
Total Governmental Activities	\$ <u>14,383,903</u>	<u>4,550,409</u>	<u>6,253,252</u>	<u>(3,580,242)</u>
<b>General Revenues:</b>				
Grants and entitlements not restricted to specific programs				1,987,096
Investment earnings				16,230
Miscellaneous				<u>840,323</u>
Total general revenues				<u>2,843,649</u>
Change in net assets				(736,593)
Net assets beginning of year				<u>4,139,359</u>
Net assets end of year			\$	<u><u>3,402,766</u></u>

See accompanying notes to the basic financial statements.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Balance Sheet  
 Governmental Funds  
 June 30, 2011

	General	Federal Head Start	ARRA-Early Head Start	Other Governmental Funds	Total Governmental Funds
<b>Assets:</b>					
Equity in pooled cash and investments \$	1,054,053	32,769	-	6,262	1,093,084
Receivables:					
Accounts	51,345	-	-	-	51,345
Intergovernmental	37,210	2,824,898	513,485	-	3,375,593
<b>Total assets</b>	<u>1,142,608</u>	<u>2,857,667</u>	<u>513,485</u>	<u>6,262</u>	<u>4,520,022</u>
<b>Liabilities:</b>					
Accounts payable	7,417	8,375	2,863	-	18,655
Accrued wages and benefits	480,751	364,331	5,508	8,533	859,123
Intergovernmental payable	92,324	87,899	28,764	2,378	211,365
Deferred revenue	4,518	2,355,478	294,494	-	2,654,490
<b>Total liabilities</b>	<u>585,010</u>	<u>2,816,083</u>	<u>331,629</u>	<u>10,911</u>	<u>3,743,633</u>
<b>Fund Balances:</b>					
Restricted	-	41,584	181,856	1,750	225,190
Assigned	243,250	-	-	-	243,250
Unassigned	314,348	-	-	(6,399)	307,949
<b>Total fund balances</b>	<u>557,598</u>	<u>41,584</u>	<u>181,856</u>	<u>(4,649)</u>	<u>776,389</u>
<b>Total liabilities and fund balances</b>	\$ <u>1,142,608</u>	<u>2,857,667</u>	<u>513,485</u>	<u>6,262</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,227,261
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds.	2,654,490
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	(2,867,000)
Accrued interest	(9,843)
Compensated absences	(378,531)
Net assets of governmental activities	<u>3,402,766</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, 2011

	General	Federal Head Start	ARRA-Early Head Start	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Contractual services	\$ 4,454,612	-	-	-	4,454,612
Tuition and fees	41,400	-	-	67,710	109,110
Interest	16,230	-	-	-	16,230
Intergovernmental	1,988,907	4,506,947	1,628,986	25,795	8,150,635
Other local revenues	1,197,324	-	-	5,290	1,202,614
<b>Total revenues</b>	<u>7,698,473</u>	<u>4,506,947</u>	<u>1,628,986</u>	<u>98,795</u>	<u>13,933,201</u>
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	465,265	-	-	-	465,265
Special education	1,106,099	817,540	-	41,894	1,965,533
Support services:					
Pupil	985,206	1,627,351	1,780,758	31,491	4,424,806
Instructional staff	921,447	855,332	-	34,393	1,811,172
Governing Board	12,826	-	-	-	12,826
Administration	1,229,739	704,790	-	17,249	1,951,778
Fiscal	246,118	126,961	-	-	373,079
Operation and maintenance of plant	339,234	514,164	-	4,846	858,244
Pupil transportation	148,908	8,073	-	-	156,981
Central	1,710,946	34,950	-	18,607	1,764,503
Capital outlay	873,631	-	-	-	873,631
Debt Service:					
Principal	70,000	-	-	-	70,000
Interest and fiscal charges	160,875	-	-	-	160,875
<b>Total expenditures</b>	<u>8,270,294</u>	<u>4,689,161</u>	<u>1,780,758</u>	<u>148,480</u>	<u>14,888,693</u>
Net change in fund balance	(571,821)	(182,214)	(151,772)	(49,685)	(955,492)
Fund balance, beginning of year, restated	<u>1,129,419</u>	<u>223,798</u>	<u>333,628</u>	<u>45,036</u>	<u>1,731,881</u>
Fund balance, end of year	\$ <u>557,598</u>	<u>41,584</u>	<u>181,856</u>	<u>(4,649)</u>	<u>776,389</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, 2011

**Net Change in Fund Balances - Total Governmental Funds** \$ (955,492)

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	718,313
Depreciation expense	(204,630)

Losses on the sale or disposal of capital assets are reported on the statement of activities and not as expenses of the governmental funds.	(7,362)
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Repayment of lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	70,000
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In the statement of activities, interest is accrued on the outstanding lease-purchase, whereas in governmental funds, an interest expenditure is reported when due.	241
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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.	(71,772)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(285,891)</u>
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Change in Net Assets of Governmental Activities	\$ <u>(736,593)</u>
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# BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Net Assets

Fiduciary Funds

June 30, 2011

	Private Purpose Trusts	Agency Funds
	<u>          </u>	<u>          </u>
<b>ASSETS</b>		
Equity in pooled cash and investments	\$ 30,082	1,161,968
Intergovernmental receivable	<u>          -</u>	<u>120,490</u>
Total assets	<u>30,082</u>	<u>1,282,458</u>
<b>LIABILITIES</b>		
Accounts payable	-	37,210
Due to other governments	<u>          -</u>	<u>1,245,248</u>
Total liabilities	<u>          -</u>	<u>1,282,458</u>
<b>NET ASSETS</b>		
Held in trust	\$ <u>30,082</u>	

See accompanying notes to the basic financial statements.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Statement of Changes in Net Assets

Fiduciary Funds

Year Ended June 30, 2011

		Private- Purpose Trusts
<b>Additions:</b>		
Interest income	\$	<u>32</u>
Total additions		<u>32</u>
<b>Deductions:</b>		
Community gifts, awards and scholarships		<u>-</u>
Total deductions		<u>-</u>
Change in net assets		32
Net assets, beginning of year		<u>30,050</u>
Net assets, end of year	\$	<u><u>30,082</u></u>

See accompanying notes to the basic financial statements.

# **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

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

**Year Ended June 30, 2011**

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### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Butler County Educational Service Center (the "ESC") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The 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. 14 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, 2011

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### **B. Basis of Presentation**

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

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

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

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

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

### **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, 2011

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*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.

*ARRA Early Head Start Fund* – This fund is used to account for the Early Head Start grant funded by the Recovery Act.

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

#### D. Basis of Accounting

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

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

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, 2011

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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 2011, 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, 2011.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2011**

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Under existing Ohio statutes, all investment earnings are assigned to the General Fund except for those specifically related to the private-purpose trust 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	20-40 years

**G. Compensated Absences**

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

The ESC records a liability for accumulated unused vacation time when earned for all employees with more than one year of service. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age 50 or greater with at least 10 years of service and/or 20 years of service regardless of age were considered expected to retire.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the Basic Financial Statements

Year Ended June 30, 2011

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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.

#### **H. Accrued Liabilities and Long-Term Obligations**

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

#### **I. 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. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned. The ESC did not have any nonspendable fund balances.

***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.

***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.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2011**

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*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.

**J. Net Assets**

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

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

**K. 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.

**2. CHANGE IN ACCOUNTING PRINCIPLES**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, enhances the usefulness of fund balance information by providing clarified fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of this statement resulted in the reclassification of certain funds and restatement of the ESC's beginning fund balance:

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2011**

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	<u>General</u>	<u>Other Governmental funds</u>
Fund Balance at June 30, 2010	\$ 1,108,459	65,996
Change in fund classification	<u>20,960</u>	<u>(20,960)</u>
Restated Fund Balance at June 30, 2010	\$ <u>1,129,419</u>	<u>45,036</u>

**3. DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the ESC into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the ESC Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the 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;

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

### Notes to the Basic Financial Statements

Year Ended June 30, 2011

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3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAROhio).
7. Commercial paper notes issued by any corporation for profit that is incorporated under the laws of the United States or any state pursuant to specifications within Ohio Revised Code.
8. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations meet specifications within Ohio Revised Code.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the 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, \$50,023 of the ESC's bank balance of \$879,907 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, 2011 consist of an investment in STAROhio with a fair value of \$1,527,071. 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, 2011**

**4. CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance*				Balance
	7/1/10	Additions	Transfers	Disposals	6/30/11
<b>Governmental Activities</b>					
<b>Nondepreciable:</b>					
Land	\$ 477,184	-	-	-	477,184
Construction in progress	<u>1,547,354</u>	-	<u>(1,547,354)</u>	-	-
Subtotal	2,024,538	-	(1,547,354)	-	477,184
<b>Depreciable:</b>					
Equipment and furniture	914,444	267,767	-	(22,001)	1,160,210
Vehicles	263,765	20,618	-	(161,521)	122,862
Buildings and improvements	<u>545,122</u>	<u>429,928</u>	<u>1,547,354</u>	-	<u>2,522,404</u>
Subtotal	<u>1,723,331</u>	<u>718,313</u>	<u>1,547,354</u>	<u>(183,522)</u>	<u>3,805,476</u>
Totals at historical cost	<u>3,747,869</u>	<u>718,313</u>	-	<u>(183,522)</u>	<u>4,282,660</u>
Less accumulated depreciation:					
Equipment and furniture	786,725	95,975	-	(14,639)	868,061
Vehicles	224,869	8,692	-	(161,521)	72,040
Buildings and improvements	<u>15,335</u>	<u>99,963</u>	-	-	<u>115,298</u>
Total accumulated depreciation	<u>1,026,929</u>	<u>204,630</u>	-	<u>(176,160)</u>	<u>1,055,399</u>
Capital assets, net	\$ <u>2,720,940</u>	<u>513,683</u>	<u>-</u>	<u>(7,362)</u>	<u>3,227,261</u>

\* Certain beginning balances were reclassified to conform to the current year presentation.

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 3,241
Special	103
Support services:	
Pupil	10,684
School administration	144,994
Fiscal	812
Operation and maintenance of plant	270
Pupil transportation	18,353
Central	<u>26,173</u>
Total depreciation expense	\$ <u>204,630</u>

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

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

**Year Ended June 30, 2011**

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#### **5. 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.

#### **6. 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](http://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, 2011, the allocation to pension and death benefits is 11.81%. The remaining 2.19% 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, 2011, 2010, and 2009 were approximately \$1,062,000, \$1,058,000, and \$1,053,000, respectively. 82% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009, respectively. The unpaid contribution for fiscal year 2011 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.

## **BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

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

**Year Ended June 30, 2011**

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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 31<sup>st</sup> 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, 2011**

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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, 2011, 2010, and 2009 were \$294,000, \$313,000, and \$308,000, 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, 2011, 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, 2011**

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**7. 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, 2011, 2010, and 2009. 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 were \$21,000 for the fiscal year ended June 30, 2011, and approximately \$22,000 for fiscal years ended June 30, 2010 and 2009.

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 2011 was \$96.40 for most participants, but could be as high as \$369.10 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 2011, the actuarially required allocation is 0.76%. The ESC's contributions for the years ended June 30, 2011, 2010, and 2009 were approximately \$58,000, \$57,000, and \$50,000, respectively. 82% has been contributed for fiscal year 2011 and 100% for fiscal years 2010 and 2009, respectively. The unpaid contribution for fiscal year 2011 is recorded as a liability within the respective funds.

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2011**

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*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, 2011, the health care allocation is 1.43%. 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. State law provides 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 2011, the minimum compensation level was established at \$35,800. 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, 2011, 2010, and 2009 were \$108,000, \$35,000, and \$314,000, 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.

**8. LONG-TERM OBLIGATIONS**

The changes in the ESC's long-term obligations during fiscal year 2011 were as follows:

	Balance			Balance	Due within
	7/1/10	Additions	Reductions	6/30/11	One Year
Lease-Purchase Agreement	\$ 2,937,000	-	(70,000)	2,867,000	84,000
Compensated Absences	306,759	128,006	(56,234)	378,531	208,924
Total	\$ 3,243,759	128,006	(126,234)	3,245,531	292,924

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

**Notes to the Basic Financial Statements**

**Year Ended June 30, 2011**

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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 building and improvements acquired by this lease-purchase agreement as of June 30, 2011 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, 2011:

Fiscal Year Ending June 30,		
2012	\$	200,390
2013		200,847
2014		201,139
2015		202,245
2016		202,167
2017 - 2021		1,017,832
2022 - 2026		1,026,138
2027 - 2031		1,036,753
2032		<u>208,202</u>
Total		4,295,713
Less amount representing interest		<u>(1,428,713)</u>
Present value of minimum lease payments	\$	<u><u>2,867,000</u></u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER****Notes to the Basic Financial Statements****Year Ended June 30, 2011****9. 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>ARRA-Early Head Start</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><i>Restricted for</i></b>					
Management Information System	\$ -	-	-	1,200	1,200
Data Communications	-	-	-	550	550
Early Head Start	-	-	181,856	-	181,856
Federal Head Start	-	<u>41,584</u>	-	-	<u>41,584</u>
<b><i>Total Restricted</i></b>	-	<u>41,584</u>	<u>181,856</u>	<u>1,750</u>	<u>225,190</u>
<b><i>Assigned to</i></b>					
Public School Support	5,056				5,056
Severances	18,620				18,620
Encumbrances	<u>219,574</u>	-	-	-	<u>219,574</u>
<b><i>Total Assigned</i></b>	<u>243,250</u>	-	-	-	<u>243,250</u>
<b><i>Unassigned (Deficit)</i></b>	<u>314,348</u>	-	-	<u>(6,399)</u>	<u>307,949</u>
<b><i>Total Fund Balance</i></b>	\$ <u>557,598</u>	<u>41,584</u>	<u>181,856</u>	<u>(4,649)</u>	<u>776,389</u>

At June 30, 2011, the Public School Preschool Fund had a deficit fund balance of \$6,399. The deficit fund balance was created by the application of generally accepted accounting principles. The General Fund provides transfers to cover deficit fund 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, 2011**

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**10. JOINTLY GOVERNED ORGANIZATION**

*Southwestern Ohio Computer Association*

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

**11. INSURANCE PURCHASING 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.

**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, 2011.

**Litigation**

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

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Revenues, Expenditures and Changes in Fund  
 Balance - Budget and Actual (Non-GAAP Budgetary Basis)  
 General Fund  
 Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Contractual services	\$ 3,340,435	3,513,624	3,764,360	250,736
Earnings on investments	5,000	15,181	16,230	1,049
Intergovernmental	3,116,705	3,116,706	3,135,644	18,938
Other local revenues	<u>689,708</u>	<u>1,247,191</u>	<u>912,920</u>	<u>(334,271)</u>
<b>Total revenues</b>	<u>7,151,848</u>	<u>7,892,702</u>	<u>7,829,154</u>	<u>(63,548)</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	506,546	506,546	484,258	22,288
Special education	1,099,125	1,099,125	1,176,376	(77,251)
Support services:				
Pupil	908,697	948,658	976,123	(27,465)
Instructional staff	960,976	960,976	967,525	(6,549)
Board of Education	4,130	7,600	16,535	(8,935)
Administration	1,347,831	1,449,531	1,331,773	117,758
Fiscal	463,932	463,932	254,169	209,763
Operation and maintenance of plant	381,708	393,547	350,986	42,561
Pupil transportation	123,108	123,108	149,105	(25,997)
Central	1,705,842	1,705,842	1,745,596	(39,754)
Capital outlay	<u>1,000,000</u>	<u>1,832,198</u>	<u>1,804,145</u>	<u>28,053</u>
<b>Total expenditures</b>	<u>8,501,895</u>	<u>9,491,063</u>	<u>9,256,591</u>	<u>234,472</u>
Excess of revenues over expenditures	(1,350,047)	(1,598,361)	(1,427,437)	170,924
<b>Other financing sources (uses):</b>				
Transfers in	-	-	28,650	28,650
Advances in	88,857	61,891	124,386	62,495
Advances out	124,386	-	(63,571)	(63,571)
Lease-purchase proceeds	<u>1,000,000</u>	<u>1,062,700</u>	<u>1,062,700</u>	<u>-</u>
<b>Total other financing sources (uses):</b>	<u>1,213,243</u>	<u>1,124,591</u>	<u>1,152,165</u>	<u>27,574</u>
Change in fund balance	(136,804)	(473,770)	(275,272)	198,498
Fund balance, beginning of year	732,965	732,965	732,965	
Prior year encumbrances appropriated	<u>348,557</u>	<u>348,557</u>	<u>348,557</u>	
Fund balance, end of year	\$ <u>944,718</u>	<u>607,752</u>	<u>806,250</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ 6,939,259	4,560,629	4,593,322	32,693
<b>Expenditures:</b>				
Current:				
Instruction:				
Special education	1,325,550	1,392,884	821,725	571,159
Support services:				
Pupil	2,247,116	2,457,593	1,662,924	794,669
Instructional staff	1,233,697	1,247,074	865,456	381,618
Administration	1,106,449	1,127,288	728,679	398,609
Fiscal	230,719	230,720	129,267	101,453
Operation and maintenance of plant	743,736	764,548	593,147	171,401
Pupil transportation	9,710	9,710	9,319	391
Central	<u>42,282</u>	<u>46,282</u>	<u>36,864</u>	<u>9,418</u>
<b>Total expenditures</b>	<u>6,939,259</u>	<u>7,276,099</u>	<u>4,847,381</u>	<u>2,428,718</u>
Change in fund balance	-	(2,715,470)	(254,059)	2,461,411
Fund balance, beginning of year	(78,773)	(78,773)	(78,773)	
Prior year encumbrances appropriated	<u>174,362</u>	<u>174,362</u>	<u>174,362</u>	
Fund balance, end of year	\$ <u><u>95,589</u></u>	<u><u>(2,619,881)</u></u>	<u><u>(158,470)</u></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)

ARRA-Early Head Start Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues:</b>				
Intergovernmental	\$ <u>2,318,047</u>	<u>1,804,562</u>	<u>1,804,562</u>	<u>-</u>
<b>Expenditures:</b>				
Current:				
Support services:				
Pupil	<u>2,318,047</u>	<u>2,339,378</u>	<u>1,904,038</u>	<u>435,340</u>
<b>Total expenditures</b>	<u>2,318,047</u>	<u>2,339,378</u>	<u>1,904,038</u>	<u>435,340</u>
Change in fund balance	-	(534,816)	(99,476)	435,340
Fund balance, beginning of year	(68,237)	(68,237)	(68,237)	
Prior year encumbrances appropriated	<u>68,237</u>	<u>68,237</u>	<u>68,237</u>	
Fund balance, end of year	\$ <u><u>-</u></u>	<u><u>(534,816)</u></u>	<u><u>(99,476)</u></u>	

See accompanying notes to supplementary information.

## BUTLER COUNTY EDUCATIONAL SERVICE CENTER

Notes to Supplementary Information  
Year Ended June 30, 2011

### Note A Budgetary Basis of Accounting

The ESC is no longer required under State statute to file budgetary information with the State Department of Education. However, the ESC's Board does follow the budgetary process for control purposes. This is done by adopting an annual appropriation resolution which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of legal level of control. Appropriation amounts are as originally adopted, or as amended by the ESC through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the ESC during fiscal 2011. 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 expenditures when liquidated (GAAP basis).

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

	<u>General</u>	<u>Head Start</u>	<u>ARRA-Early Head Start</u>
Net change in fund balance - GAAP Basis	\$ (571,821)	(182,214)	(151,772)
Increase / (decrease):			
Due to inclusion of Public School Support Fund	(2,716)	-	-
Due to revenues	134,284	86,375	175,576
Due to expenditures	(763,056)	33,019	(23,804)
Due to other sources (uses)	1,152,165	-	-
Due to encumbrances	<u>(224,128)</u>	<u>(191,239)</u>	<u>(99,476)</u>
Net change in fund balance - Budget Basis	<u>\$ (275,272)</u>	<u>(254,059)</u>	<u>(99,476)</u>

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**

Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2011

<u>Federal Grantor/Program Title</u>	<u>Pass-through Entity Number</u>	<u>Federal CFDA Number</u>	<u>Federal Revenues</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Child Care and Adult Care Food Program	CC-MO-09	10.558	\$ 96,665	96,665
Child Care and Adult Care Food Program	CC-MO-10	10.558	<u>256,259</u>	<u>256,259</u>
Total U.S. Department of Agriculture			<u>352,924</u>	<u>352,924</u>
<u>U.S. Department of Health and Human Services:</u>				
Head Start - 2011-2012 grant	n/a	93.600	1,602,526	1,602,449
Head Start - 2010-2011 grant	n/a	93.600	2,511,512	2,511,835
ARRA - Head Start grant	n/a	93.708	126,360	126,360
ARRA - Early Head Start grant	n/a	93.709	<u>1,804,562</u>	<u>1,804,562</u>
Total U.S. Department of Health and Human Services			<u>6,044,960</u>	<u>6,045,206</u>
<u>U.S. Department of Education:</u>				
<i>(Passed through Ohio Department of Education)</i>				
Twenty First Century Community Learning Centers	T1	84.287	<u>14,811</u>	<u>26,000</u>
Total U.S. Department of Education			<u>14,811</u>	<u>26,000</u>
Total Federal Awards			\$ <u>6,412,695</u>	<u>6,424,130</u>

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

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

The schedule of expenditures of federal awards is a summary of the activity of the Service Center's federal award programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B - MATCHING REQUIREMENTS**

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

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

To the Governing Board of  
Butler County Educational Service Center:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Butler County Educational Service Center ("Service Center") as of and for the year ended June 30, 2011, which collectively comprise the Service Center's basic financial statements and have issued our report thereon dated October 26, 2011 wherein we noted the Service Center adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Service Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Service Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Service Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Service Center, in a separate letter dated October 26, 2011.

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

*Clark, Schaefer, Hachett & Co.*

Cincinnati, Ohio  
October 26, 2011

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Governing Board of  
Butler County Educational Service Center:

Compliance

We have audited the Butler County Educational Service Center's ("Service Center") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Service Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Service Center's management. Our responsibility is to express an opinion on the Service Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Service Center's compliance with those requirements.

In our opinion, the Service Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Service Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Service Center's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Service Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
October 26, 2011

**BUTLER COUNTY EDUCATIONAL SERVICE CENTER**  
 Schedule of Findings and Questioned Costs  
 Year Ended June 30, 2011

**Section I - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued :	unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Noncompliance material to financial statements noted?	none

**Federal Awards**

Internal Control over major programs:	
• Material weakness(es) identified?	none
• Significant deficiency(ies) identified not considered to be material weaknesses?	none
Type of auditors' report issued on compliance for major programs:	unqualified
Any audit findings that are required to be reported in accordance with 510(a) of Circular A-133?	none
Identification of major programs:	
<i>Head Start Cluster:</i>	
<i>CFDA 93.600 – Head Start Program</i>	
<i>CFDA 93.708 – Head Start Program - ARRA</i>	
<i>CFDA 93.709 – Early Head Start Program - ARRA</i>	
Dollar threshold to distinguish between Type A and Type B Programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

**Section II - Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**Section IV – Summary of Prior Audit Findings and Questioned Costs**

None