



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

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REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center
Hardin County
1211 West Lima Street
Kenton, Ohio 43326

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Hardin County, (the Center) as of and for the year ended June 30, 2000, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Hardin County, as of June 30, 2000, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2000 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

JIM PETRO
Auditor of State

December 1, 2000

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EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000

	Governmental Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Agency	General	General	
				Fixed Assets	Long-Term Obligations	
Assets and Other Debits:						
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$742,013	\$164,310	\$307,047			\$1,213,370
Receivables:						
Accounts	6,150					6,150
Intergovernmental	119,134	1,000				120,134
Prepaid Items	7,930	889				8,819
Fixed Assets (Net, where applicable, of Accumulated Depreciation)				\$217,265		217,265
Other Debits:						
Amount to be Provided from General Government Resources					\$60,730	60,730
Total Assets and Other Debits	<u>875,227</u>	<u>166,199</u>	<u>307,047</u>	<u>217,265</u>	<u>60,730</u>	<u>1,626,468</u>
Liabilities, Fund Equity and Other Credits:						
Liabilities:						
Accounts Payable	87,649	5,204				92,853
Accrued Wages and Benefits	104,476	11,867				116,343
Compensated Absences Payable	5,937	0			28,105	34,042
Intergovernmental Payable	27,391	3,206			5,094	35,691
Capital Leases Payable	0	0			27,531	27,531
Undistributed Monies	0	0	307,047			307,047
Total Liabilities	<u>225,453</u>	<u>20,277</u>	<u>307,047</u>		<u>60,730</u>	<u>613,507</u>
Fund Equity and Other Credits:						
Investment in General Fixed Assets				217,265		217,265
Fund Balance:						
Reserved for Encumbrances		23,656				23,656
Reserved for Prepaid Items	7,930	889				8,819
Unreserved	641,844	121,377				763,221
Total Fund Equity and Other Credits	<u>649,774</u>	<u>145,922</u>		<u>217,265</u>		<u>1,012,961</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$875,227</u>	<u>\$166,199</u>	<u>\$307,047</u>	<u>\$217,265</u>	<u>\$60,730</u>	<u>1,626,468</u>

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Intergovernmental	\$794,703	\$464,142	\$1,258,845
Interest	65,407		65,407
Tuition and Fees	479,105		479,105
Customer Services	81,452		81,452
Extracurricular Activities	1,872		1,872
Miscellaneous	142,929	5,092	148,021
Total Revenues	<u>1,565,468</u>	<u>469,234</u>	<u>2,034,702</u>
Expenditures:			
Current:			
Instruction:			
Regular	46,520	494	47,014
Special	466,963		466,963
Support Services:			
Pupils	453,426	193,909	647,335
Instructional Staff	129,704	22,705	152,409
Board of Education	12,864	0	12,864
Administration	235,837	33,450	269,287
Fiscal	90,904	2,076	92,980
Business	44,227		44,227
Operation and Maintenance of Plant	714	2,031	2,745
Pupil Transportation	0	336	336
Central	9,672	3,497	13,169
Non-Instructional Services	60		60
Extracurricular Activities	2,027	249	2,276
Intergovernmental	60,566	150,870	211,436
Debt Service:			
Principal Retirement	14,736	0	14,736
Interest	1,910	0	1,910
Total Expenditures	<u>1,570,130</u>	<u>409,617</u>	<u>1,979,747</u>
Excess of Revenues Over Expenditures	(4,662)	59,617	54,955
Fund Balances at Beginning of Year	<u>654,436</u>	<u>86,305</u>	<u>740,741</u>
Fund Balances at End of Year	<u><u>\$649,774</u></u>	<u><u>\$145,922</u></u>	<u><u>\$795,696</u></u>

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2000**

	Governmental Fund Types					
	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition and Fees	\$610,973	\$443,071	(\$167,902)	\$0	\$0	\$0
Intergovernmental	821,578	875,625	54,047	479,748	463,704	(16,044)
Interest	45,000	65,407	20,407			
Extracurricular Activities		1,872	1,872			
Miscellaneous	57,893	117,732	59,839	4,092	5,092	1,000
Total Revenues	1,535,444	1,503,707	(31,737)	483,840	468,796	(15,044)
Expenditures:						
Current						
Instruction:						
Regular	68,159	43,459	24,700	287,003	102,707	184,296
Special	600,166	561,852	38,314	11,759	10,649	1,110
Support Services:						
Pupils	490,748	468,360	22,388	307,667	206,629	101,038
Instructional Staff	128,144	122,669	5,475	60,591	71,047	(10,456)
Board of Education	14,499	13,525	974			
Administration	286,221	241,992	44,229	45,157	31,027	14,130
Fiscal	157,744	141,195	16,549	1,766	2,746	(980)
Operation and Maintenance of Plant	1,200	714	486		3,957	(3,957)
Pupil Transportation				800	1,693	(893)
Central	16,496	10,256	6,240	3,500	6,573	(3,073)
Community Environment	500	160	340			
Extracurricular Activities	5,773	2,027	3,746	257	249	8
Total Expenditures	1,769,650	1,606,209	163,441	718,500	437,277	281,223
Excess of Revenues Over (Under) Expenditures	(234,206)	(102,502)	131,704	(234,660)	31,519	266,179
Fund Balances at Beginning of Year	831,802	831,802	0	48,988	48,988	0
Prior Year Encumbrances Appropriated	6,164	6,164	0	70,994	70,994	0
Fund Balances at End of Year	\$603,760	\$735,464	\$131,704	(\$114,678)	\$151,501	\$266,179

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

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**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000**

NOTE 1- DESCRIPTION OF CENTER

The Educational Service Center Hardin County (the Center) is located in Kenton, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Hardin-Northern, Ridgemont, Riverdale, and Upper Scioto Valley Local School Districts, Ada Exempted Village School District, and Kenton City School District. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) of the Center 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 most significant of the Center's accounting policies are described below.

A. Reporting Entity

The Center operates under a locally-elected board form of government consisting of five members elected at-large for staggered four year terms. The Center has ten support staff employees and twenty-four certified teaching personnel that provide services to the local, city, and exempted village school districts.

The reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements of the Center are not misleading.

i. Primary Government:

The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Center. For the Center, this includes general operations and student related activities.

ii Component Units:

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organizations' governing board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt, or the levying of taxes. The Center has no component units.

iii. Jointly Governed Organizations:

The Center is associated with three jointly governed organizations; the Western Ohio Computer Organization, the West Central Ohio Special Education Regional Resource Center, and the Ohio-Hi Point Joint Vocational School.

Information about these organizations are presented in Note 15 to the general purpose financial statements.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

iv. Insurance Pools:

The Center is associated with two Insurance Pools; the Hardin County School Employees' Health and Welfare Benefit Plan and Trust, and the Ohio School Boards Association Workers' Compensation Group Rating Plan.

Information about these organizations are presented in Note 16 to the general purpose financial statements.

v. Fiscal Agent Services:

The Center serves as the fiscal agent for; the West Central Ohio Special Education Regional Resource Center (the SERRC), the West Central Ohio Assistive Technology Center located at the SERRC, the Hardin County Local Professional Development Committee (the LPDC), and the Business and Education Together Council (the B&ET). The Center also administers funds belonging to the Regional Professional Development Committee (RPDC), and Teachmaster. Accordingly, this activity is presented as agency funds within the Center's financial statements.

The Center has a contract with the Auglaize County Educational Service Center to provide Treasurer consulting services and in July 1999, the Center entered into a contract with Riverdale Local Board of Education, Hardin County, to provide Treasurer's and Assistant Treasurer's services to the School District. In July 2000, the Center entered into a contract with Hardin Northern Local School District, Hardin County, to provide Treasurer's and Assistant Treasurer's services to the School District.

The financial statements of the Center 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 Center's accounting policies are described below.

B. Basis Of Presentation - Fund Accounting

The Center uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Center functions or activities.

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

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

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis Of Presentation - Fund Accounting

Governmental Fund Types:

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

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

Special Revenue Funds - Special Revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The Center's fiduciary fund consists of several agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups:

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

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

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

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period 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 Center is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, tuition fees, and customer services.

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 and amortization, are not recognized in the governmental funds.

D. Budgetary Process

The budgetary process is prescribed by provisions of Section 3317.11 of the Ohio Revised Code and entails preparation of budgetary documents within an established timetable.

The Center legally adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding year. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant.

The State Department of Education reviews the budget and certifies to each local board of education, under the supervision of the Center, the amount from part (B) that is to be apportioned to their school district.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

Appropriations:

The annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Center's Board. The Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as a reservation of fund balance for subsequent-year expenditures.

Lapsing of Appropriations:

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 2000, investments were limited to a repurchase agreement and STAR Ohio. Investments are stated at cost. Investment earnings are allocated as authorized by State statute.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalentents (Continued)

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the fiscal year 2000. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments with the State to pool their funds for investment purposes. STAR Ohio 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 STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2000.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during fiscal year 2000 amounted to \$65,407, which includes \$11,119 assigned from other Center funds.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2000, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Estimates

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

H. Fixed Assets and Depreciation

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Improvements are capitalized. Assets in the general fixed assets account group are not depreciated.

I. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as entitlements and grants awarded on a non-reimbursement basis, are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Intergovernmental Revenues (Continued)

The Center currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems

Public School - Preschool

Children's Trust

School Net

Alternative Opportunity School

Webcheck Grant

Technology Assistance Grant

VI-B Flow Thru

Drug Free

Preschool Disability

Grants and entitlements amounted to approximately 62 percent of the Center's operating revenue during the 2000 fiscal year.

J. 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 Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

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 Center 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 Center's termination policy. The Center records a liability for accumulated unused sick leave for all employees after fifteen years of service.

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

K. Accrued Liabilities and Long-term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, claims and judgments, compensated absences, and contractually required pension contributions are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-term Obligations (Continued)

In general, payment of these obligations made more than two months after fiscal year-end are considered not to have used current available financial resources. Capital leases are recognized as a liability of the general long-term obligations account group until due.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

N. Flow-Through Grants

The Center is the primary recipient of grants which are passed-through to or spent on behalf of the local school districts within the County. When the Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. Grants in which the Center has no financial or administrative role and are passed-through to the local school district in the county are reported in an agency fund.

O. Total Columns on General Purpose Financial Statements

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

NOTE 3 - COMPLIANCE

The Treasurer did not certify all expenditures prior to the obligation being incurred which violates Ohio Rev. Code Section 5705.41(D).

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budget Basis)-All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis).

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

Excess of Revenues Over (Under) Expenditures Governmental Fund Types		
	General	Special Revenue
Budgetary Basis	\$(102,502)	\$31,519
<u>Increase (Decrease) Due To:</u>		
Revenue Accruals	27,130	438
Expenditure Accruals	90,096	(825)
Encumbrances Outstanding (Budget Basis) at Year End	6,549	28,485
GAAP Basis	\$ 55,904 ²	\$59,617

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the Center into three categories.

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

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), 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 moneys deposited with the institution.

Inactive moneys may 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 and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any 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 marking association. All federal agency services shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
10. 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;
11. The State Treasurer's investment pool (STAROhio);

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 5 - EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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 ESS, 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 qualified trustee 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 No. 3, "Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the Center's deposits was (\$64,324) and the bank balance was \$50,341. Of the bank balance, \$50,341 was covered by federal depository insurance.

Investments: The Center's investments are to be categorized to give an indication of the level of risk assumed by the Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Center's name. STAR Ohio (an investment pool operated by the Ohio State Treasurer) is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At year end, the Center's investment in STAROhio had a market value of \$464,387.

	Category 3	Uncategorized	Reported Value	Fair Value
Repurchase Agreement	\$813,207	\$ -	\$813,207	\$813,207
STAR Ohio	<u> </u>	<u>464,387</u>	<u>464,387</u>	<u>464,387</u>
Total	<u>\$813,207</u>	<u>\$464,387</u>	<u>\$1,277,594</u>	<u>\$1,277,594</u>

A reconciliation between the classifications of pooled cash and investments on the Combined Balance Sheet (per GASB Statement No.9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,213,370	\$ -
Cash on Hand	(100)	
Investments of the Cash		
Cash Management Pool:		
STAROhio	(464,387)	464,367
STAROhio	<u>(813,207)</u>	<u>813,207</u>
GASB Statement 3	<u>(\$64,324)</u>	<u>\$1,277,594</u>

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 6 - STATE FUNDING

The Center is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by the agreed upon deduction of \$6.50 for the City of Kenton and Ada Exempted Village School Districts and \$20.56 for the other four school districts. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$36. This amount is provided from State resources.

If additional funding is needed for the Center, and if a majority of the Boards of Education of the school districts served by the Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the local school districts served by the Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the local school districts approve or disapprove the additional apportionment.

NOTE 7 - RECEIVABLES

Receivables at June 30, 2000, consisted of accounts, interfund, intergovernmental grants, and contracts. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of receivables is as follows:

	General Fund Amounts	Special Revenue Fund Amounts
Intergovernmental Receivables	\$119,134	\$1,000
Accounts Receivable	6,150	0
Total Receivable	<u>\$125,284</u>	<u>1,000</u>

NOTE 8 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2000 follows:

Classification	Balance at June 30, 1999	Additions	Deletions	Balance at June 30, 2000
Furniture, Fixtures, and Equipment	\$208,229	\$9,036	\$ -	\$217,265

The beginning balance for Fixed Assets has been restated by \$72,864 from the prior year. This restatement was the result of capital leases for two copy machines not being included in the fixed asset list.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 9 - RISK MANAGEMENT

The Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year 2000, the Center contracted with Nationwide Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by Westfield Insurance Company and holds a \$500 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverages from last year.

The Center participates in the Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the Trust), a public entity shared risk pool consisting of six local school districts and the Center. The Center pays monthly premiums to the Plan for employee medical, dental, and vision benefits. The Plan is responsible for the management and operations of the program. Upon withdrawal from the Plan, a participant is responsible for the payment of all Plan liabilities to its employees, dependents, and designated beneficiaries accruing as a result of withdrawal.

For fiscal year 2000, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the Plan. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the Plan. Each year, the Center pays an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (740)222-5853.

Plan members are required to contribute 9 percent of their annual salary and the Hardin County Center is required to contribute 14 percent; 5.5 percent was the portion to fund pension obligations. For fiscal year 1999, the portion used to fund pension obligations was 7.7 percent. The contribution rates are not determined actuarially, but are established by the SERS's Retirement Board within the rates allowed by State statute. The adequacy of the contribution rates is determined annually. The Center's required pension obligations to SERS for the fiscal years ended June 30, 2000, 1999, and 1998 was \$19,999, \$27,074, and \$33,150, respectively; 59.1 percent has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$8,182 representing the unpaid contribution for fiscal year 2000, is recorded as a liability within the respective funds and the general long-term obligations account group.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides 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 issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (740)227-4090.

Plan members are required to contribute 9.3 percent of their annual salary and the Center is required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. The contribution rates are established by STRS, upon recommendation of its consulting agency, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 2000, 1999, and 1998 were \$52,436, \$50,705 and \$85,689 respectively; 78.0 percent has been contributed for fiscal year 2000 and 100 percent for the fiscal years 1999 and 1998. \$22,575 representing the unpaid contribution for fiscal year 2000, is recorded as a liability within the respective funds.

C. Social Security Tax

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2000, one board of education member has elected Social Security. The Board's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State Statute. Both systems are funded on a pay-as-you-go basis.

The State Teacher Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund from which payments for health care benefits are paid. The balance in the Health Care Reserve Fund was \$2.783 billion at June 30, 1999. For the fiscal year ended June 30, 1999, net health care costs paid by STRS were \$249,929,000. As of July 1, 1999, eligible benefit recipients totaled 95,796. For the Center, the amount contributed for postemployment benefits equaled \$69,915 during the 2000 fiscal year.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 11 - POSTEMPLOYMENT BENEFITS (Continued)

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Members retiring on or after August 1, 1989, with less than twenty-five years of service credit must pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75 percent of the premium.

For this fiscal year ending June 30, 1999, employer contributions to fund health care benefits were 8.5% of covered payroll, an increase from 6.3 percent for fiscal year 1999. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay had been established at \$12,400. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 1999 were \$126,380,984 and the target level was \$189.6 million. At June 30, 1999, the Retirement System's net assets available for payment of health care benefits was \$188.0 million. The number of participants currently receiving health care benefits is approximately 51,000. For the Center, the amount contributed for post-employment benefits, including the surcharge, equaled \$28,853 during the 2000 fiscal year.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 120 days for eligible personnel. Upon retirement, payment is made for one-fourth of their accrued, but unused sick leave credit to a maximum of 30 days.

B. Health Care Benefits

The Center provides life, accidental death and dismemberment, medical/surgical, dental, and vision insurance to most employees through Hardin County School Employees' Health and Welfare Benefit Plan and Trust. Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies with employee depending on the terms of the union contract.

NOTE 13 - CAPITAL LEASES

The Center has entered into capitalized leases for office equipment. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 13 - CAPITAL LEASES (Continued)

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$72,864.

This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2000 totaled \$14,736 in the governmental funds.

The following is a schedule of future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30,2000:

Fiscal Year Ending June 30:	Amounts
2001	\$16,646
2002	9,640
2003	2,762
Total minimum lease payments	<u>\$29,048</u>
Less: Amount representing interest	1,517
Present Value of net minimum lease payments	<u><u>\$27,531</u></u>

NOTE 14 - LONG TERM OBLIGATIONS

The changes in the Center's long-term obligations during fiscal year 2000 were as follows:

	Balance at June 30, 2000	Additions	Deductions	Balance at June 30, 2000
Compensated Absences Payable	\$28,925	\$ -	\$820	\$28,105
Intergovernmental Payable	4,353	5,094	4,353	5,094
Capital Lease Payable	<u>42,267</u>	<u>0</u>	<u>14,736</u>	<u>27,531</u>
Total General Long Term Obligations	<u><u>\$75,545</u></u>	<u><u>\$5,094</u></u>	<u><u>\$19,909</u></u>	<u><u>\$60,730</u></u>

NOTE 15 - JOINTLY GOVERNED ORGANIZATION

Western Ohio Computer Organization (WOCO) -The Center is a participant in WOCO which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The 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. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools districts within each county plus one representative of the fiscal agent. Financial information can be obtained from Larry Wilberding, Director, at 129 E. Court Street, Sidney, Ohio 45365.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 15 - JOINTLY GOVERNED ORGANIZATION (Continued)

Ohio Hi-Point Joint Vocational School District - The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 11 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Joint Vocational School, Eric Adelsberger, Treasurer, 2280 State Route 540, Bellefontaine, Ohio 43311-9594.

West Central Ohio Special Education Regional Resource Center - The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1 Court House Square, Suite 50, Kenton, Ohio 43326-2385.

NOTE 16 - INSURANCE POOLS

Hardin County School Employees' Health and Welfare Benefit and Trust - The Hardin County Schools Health Benefit Fund and Trust (the Trust) is a public entity shared risk pool consisting of six school districts and the Center. The Trust is organized as a Voluntary Employee Benefit

The Trust is organized as a Voluntary Employee Benefit Association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each school district and the Center decides which plans offered by the Administrative Committee will be extended to its employees. Participation in the Trust is by written application subject to acceptance by the Administrative Committee and payment of the monthly premiums. Financial information can be obtained from Rick Combs, who serves as director, at 220 East Columbus Street, P.O. Box 735, Kenton, Ohio 44326.

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

NOTE 17 - SCHOOL FOUNDATION PROGRAM

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program" which provides significant amounts of monetary support to the District. For the fiscal year ended June 30, 2000, the Center received \$782,973 in school foundation support for its general fund.

**EDUCATION SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2000
(Continued)**

NOTE 17 - SCHOOL FOUNDATION PROGRAM (Continued)

Since the Supreme Court ruling, numerous pieces of legislation have been passed by the State General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County reviewed the new laws and, in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. On May 11, 2000, the Ohio Supreme Court rendered an opinion on this issue. The Court concluded, "...the mandate of the [Ohio] Constitution has not been fulfilled." The Court's majority recognized efforts by the Ohio General Assembly taken in response to the Court's March 24, 1997, decision, however, it found seven "...major areas warrant further attention, study, and development by the General Assembly...", including the State's reliance on local property tax funding, the state's basic aid formula, the school foundation program, as discussed above, the mechanism for, and adequacy of, funding for school facilities, and the existence of the State's School Solvency Assistance Fund, which the Court found took the place of the unconstitutional emergency school loan assistance program.

The Court decided to maintain jurisdiction over these issues and continued the case at least until June 15, 2001.

As of the date of these financial statements, the Center is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program (these programs) and on its financial operations.

NOTE 18 - CONTINGENT LIABILITIES

The Center 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 Center at June 30, 2000.

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**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2000**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Disbursements
Education Service Center				
UNITED STATES DEPARTMENT OF LABOR				
(Passed through Ohio Department of Education)				
STW-Workforce 2000	17.249	WK-BE 98	\$0	\$1,000
UNITED STATES DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-SF 98P	59,122	92,225
	84.027	6B-SF 99P	<u>128,944</u>	<u>128,174</u>
Total Special Education Grants to States			188,066	220,399
Special Education Preschool Grants	84.173	PG-S1-99	0	2,123
	84.173	PG-S1-99P	<u>8,487</u>	<u>1,609</u>
Total Special Education Preschool Grants			8,487	3,732
Total Special Education Cluster			<u>196,553</u>	<u>224,131</u>
.	84.276	G2-S9 00	15,000	
Dwight D. Eisenhower Mathematics and Science Education Grants	84.281	MS-S1 98		144
	84.281	MS-S1 99		<u>432</u>
Total Mathematics and Science Education Grant				576
Drug Free Grants	84.186A	DR-S1-99	4,316	7,207
		DR-S1-00	<u>2,443</u>	<u>2,114</u>
Total Drug Free Grants			6,759	9,321
Community Alternative Funding	93.778		47,834	5,704
	93.778		<u>33,617</u>	<u>3,825</u>
Total Community Alternative Funding			81,451	9,529
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR EDUCATIONAL SERVICE CENTER			\$299,763	\$244,557
West Central Ohio Special Education Regional Resource Center(SERRC)				
UNITED STATES DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-S1 99	\$0	\$198,238
	84.027	6B-S1 00	<u>555,830</u>	<u>383,463</u>
Total Special Education Grants to States			555,830	581,701
Special Education Preschool Grants	84.173	PG-S3-99P	47,300	47,249
	84.173	PG-S7-00	11,250	8,727
	84.173	PG-S1-98P	0	950
	84.173	PG-S1-99P	<u>0</u>	<u>14,455</u>
Total Special Education Preschool Grants			58,550	71,381
Total Special Education Cluster			<u>614,380</u>	<u>653,082</u>
Project Life	84.158		20,000	20,000
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR SERRC			\$634,380	\$673,082
GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE EDUCATIONAL SERVICE CENTER SERRC			<u>\$934,143</u>	<u>\$917,639</u>

The notes to the schedule of federal awards revenue and expenditures is an integral part of this statement.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2000**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Financial Assistance summarizes activity of the Center's and the West Central Ohio Special Educational Regional Resource Center's (the SERRC) federal awards programs. The schedule has been prepared on the cash basis of accounting, revenues are recognized when received rather than when earned, and expenditures are recognized when paid rather than when the obligation has been incurred.

NOTE B - SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)

The West Central Ohio Special Educational Regional Resource Center (SERRC) is an organization comprised of the Center's in Allen, Auglaize, Champaign, Hardin, Logan, Mercer and Shelby Counties. The purpose of the organization is to assist schools to develop quality special education programs and services. The governing board is made up of superintendents from the schools, parents of children with disabilities, and representatives of chartered nonpublic schools and universities. The SERRC is funded through the Ohio Department of Education in the form of Education to the Handicapped - Title VI-B federal grants. Any deficit in funding is charged to each member Center in its proportionate share. The Hardin County Educational Service Center serves as fiscal agent for the West Central Ohio SERRC and reports the activity within an agency fund in the financial statements. The Federal grant is audited as part of the Center and is separately identified on the Schedule of Federal Awards Assistance.

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

Educational Service Center
Hardin County
1211 West Lima Street
Kenton, Ohio 43326

To the Board of Education:

We have audited the financial statements of the Educational Service Center (the Center), Hardin County, as of and for the year ended June 30, 2000, and have issued our report thereon dated December 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2000,10233-001. We also noted an immaterial instance of non-compliance that we have reported to management of the Center in a separate letter dated December 1, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the District in a separate letter dated December 1, 2000.

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

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

JIM PETRO
Auditor of State

December 1, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

Educational Service Center
Hardin County
1211 West Lima Street
Kenton, Ohio 43326

To the Board of Education:

Compliance

We have audited the compliance of the Educational Service Center, Hardin County [the Center] with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 2000. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2000.

Internal Control Over Compliance

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

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

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

JIM PETRO
Auditor of State

December 1, 2000

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

JUNE 30, 2000

1. SUMMARY OF AUDITOR'S RESULTS
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(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Title VI-B Cluster - CFDA: 84.027 & 84.173
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

Finding Number	2000-10233-001
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Noncompliance Citation

Ohio Rev. Code Section 5705.41 (D) states that no order or contract involving the expenditure of money is to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts less than \$100 for counties, or less than \$1,000 for other political subdivisions may be paid by the fiscal officer without such certificate of the taxing authority upon completion of the “then and now” certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Forty percent of the transactions tested were not certified by the Treasurer prior to making orders for the expenditure of Center funds. In addition, neither of the two exceptions above were utilized for these transactions. Procedures should be implemented not only to assure compliance with this requirement, but to help prevent the unauthorized obligation of Center funds.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2000
SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2000**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
1999-10233-001	Ohio Rev. Code 5705.41 (D) Expenditures were not prior certified.	No	Repeated in Report
1999-10233-002	Financial Statement Reporting. The Center co-mingled Agency funds with the Center's funds and included Agency fixed assets on the Center's balance sheet.	No	This issue was significantly corrected, however, some related issues are reported in the Management Letter.



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OFFICE OF THE AUDITOR

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HARDIN COUNTY EDUCATIONAL SERVICE CENTER

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 26, 2000**