EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Auditor of State
Betty Montgomery

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

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, 2003, 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.

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

We were not able to obtain complete and accurate accounting records to support Contract Services (Excess Costs) Receivable in the amount of $344,333, deferred revenue in the amount of $148,739, and the failure to report Contract Services (Excess Costs) Payable, if any, in the General Fund on the Combined Balance Sheet as of June 30, 2003, and Excess Cost revenue in the amount of $195,594 recorded in the Tuition, Fees, and Contract Services line-item of the General Fund in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for the year ended June 30, 2003. As a result, we were unable to satisfy ourselves regarding these amounts by performing other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves regarding contract services receivable and the related contract services revenue and deferred revenue, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Educational Service Center, Hardin County, as of June 30, 2003, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2004, 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.

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

Betty Montgomery

Betty Montgomery
Auditor of State

June 8, 2004

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HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2003

	Governmental Fund Types		
	General	**Special Revenue**	**Capital Projects**
Assets and Other Debits:			
Assets:			
Equity in Pooled Cash and Investments	$423,203	$41,071	
Receivables:			
Accounts	555		
Intergovernmental		126,802	
Contract Services Receivable	344,333		
Interfund	65,000		
Due from Other Funds	40,000		
Prepaid Items	4,587	35	
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	877,678	167,908	
Liabilities, Fund Equity and Other Credits:			
Liabilities:			
Accounts Payable	28,286	1,472	
Accrued Wages	146,125	60,850	
Compensated Absences Payable	10,509	3,445	
Intergovernmental Payable	18,438	5,139	
Interfund Payable		65,000	
Deferred Revenue	148,739	36,756	
Due to Other Funds		40,000	
Capital Lease Payable			
Undistributed Monies			
Total Liabilities	352,097	212,662	
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Fund Balance:			
Reserved for Encumbrances	34,427	8,158	
Reserved for Prepaid Items	4,587	35	
Unreserved:			
Undesignated	486,567	(52,947)	
Total Fund Equity and Other Credits	525,581	(44,754)	
Total Liabilities, Fund Equity and Other Credits	$877,678	$167,908	$0

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Types	Account Groups		
Agency	General Fixed Assets	General Long-Term Obligations	Totals (Memorandum Only)
$224,593			$688,867
			555
			126,802
			344,333
			65,000
			40,000
			4,622
	407,469		407,469
		105,800	105,800
224,593	407,469	105,800	1,783,448
			29,758
			206,975
		56,741	70,695
		6,614	30,191
			65,000
			185,495
			40,000
		42,445	42,445
224,593			224,593
224,593		105,800	895,152
	407,469		407,469
			42,585
			4,622
			433,620
	407,469		888,296
$224,593	$407,469	$105,800	$1,783,448

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	Governmental Fund Types			Totals
	General	Special Revenue	Capital Projects	(Memorandum Only)
Revenues:				
Intergovernmental	$870,677	$499,977		$1,370,654
Interest	13,170			13,170
Tuition, Fees, and Contract Services	944,498			944,498
Customer Services	122,725			122,725
Miscellaneous	82,234	1,000		83,234
Total Revenues	2,033,304	500,977		2,534,281
Expenditures:				
Current:				
Instruction:				
Regular	106,674	69,495		176,169
Special	474,856	213,652		688,508
Support Services:				
Pupils	601,965	13,539		615,504
Instructional Staff	225,657	6,455		232,112
Board of Education	16,122			16,122
Administration	382,132	34,514		416,646
Fiscal	266,858			266,858
Operation and Maintenance of Plant	7,421	10,374		17,795
Central	11,388			11,388
Operation of Non-Instructional Services	165			165
Extracurricular Activities	2,105			2,105
Contract Services		209,748		209,748
Capital Outlay			2,812	2,812
Debt Service:				
Principal Retirement	14,121			14,121
Interest and Fiscal Charges	2,619			2,619
Total Expenditures	2,112,083	557,777	2,812	2,672,672
Revenues (Under) Expenditures	(78,779)	(56,800)	(2,812)	(138,391)
Other Financing Sources (Uses):				
Operating Transfers In		1,648		1,648
Operating Transfers Out	(1,648)			(1,648)
Total Other Financing Sources (Uses)	(1,648)	1,648		
Renenue and Other Financing Sources (Under) Expenditures and Other Financing Uses	(80,427)	(55,152)	(2,812)	(138,391)
Fund Balances at Beginning of Year	606,008	10,398	2,812	619,218
Fund Balances (Deficit) at End of Year	$525,581	($44,754)	$0	$480,827

The accompanying notes are an integral part of the financial statements.

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EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (BUDGET BASIS) ALL GOVERNMENTAL FUND TYPES FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund		
	Revised Budget	**Actual**	**Variance Favorable (Unfavorable)**
Revenues:			
Intergovernmental	$906,250	$1,031,986	$125,736
Interest	20,000	13,170	(6,830)
Tuition and Fees	975,371	553,214	(422,157)
Miscellaneous	354,827	323,244	(31,583)
Total Revenues	2,256,448	1,921,614	(334,834)
Expenditures:			
Current:			
Instruction:			
Regular	121,241	109,665	11,576
Special	576,158	561,024	15,134
Support Services:			
Pupils	633,160	588,374	44,786
Instructional Staff	291,632	221,067	70,565
Board of Education	17,324	14,883	2,441
Administration	440,777	392,209	48,568
Fiscal	274,128	267,164	6,964
Operation and Maintenance of Plant	14,350	7,421	6,929
Pupil Transportation			
Central	15,866	11,915	3,951
Extracurricular Activities	16,137	2,105	14,032
Community Environment	295	275	20
Capital Outlay			
Total Expenditures	2,401,068	2,176,102	224,966
Excess of Revenues Over (Under) Expenditures	(144,620)	(254,488)	(109,868)
Other Financing Sources (Uses):			
Other Financing (Uses)			
Advance In	93,500		(93,500)
Advance Out	(100,000)	(65,000)	35,000
Operating Transfers In			
Operating Transfers Out	(16,383)	(1,648)	14,735
Total Other Financing Sources (Uses)	(22,883)	(66,648)	(43,765)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(167,503)	(321,136)	(153,633)
Fund Balances at Beginning of Year	685,902	685,902	
Prior Year Encumbrances Appropriated	22,714	22,714	
Fund Balances at End of Year	$541,113	$387,480	($153,633)

The accompanying notes are an integral part of the financial statements.

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
$550,195	$423,392	($126,803)			
1,000	1,000				
551,195	424,392	(126,803)			
163,960	149,428	14,532			
221,650	178,329	43,321			
91,398	84,395	7,003			
50,692	47,726	2,966			
71,693	63,941	7,752			
2,500	2,500				
11,078	11,078				
343	343				
			2,812	2,812	
613,314	537,740	75,574	2,812	2,812	
(62,119)	(113,348)	(51,229)	(2,812)	(2,812)	
(14,001)	(757)	13,244			
	65,000	65,000			
1,648	1,648				
(12,353)	65,891	78,244			
(74,472)	(47,457)	27,015	(2,812)	(2,812)	
39,746	39,746		2,812	2,812	
40,624	40,624				
$5,898	$32,913	$27,015	$0	$0	$0

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1. DESCRIPTION

The Hardin County Educational Service Center (the "Center") is located in Kenton, Ohio, the county seat. The Educational Service 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 twenty-five support staff employees and thirty-eight 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 Educational Service Center are not misleading.

1. 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.

2. Component Units:

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Center is financially accountable for an organization if the Educational Service 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 Educational Service 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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 is presented in Note 15 to the general purpose financial statements.

4. Insurance Pools:

The Center is associated with three insurance pools; the Hardin County School Employees' Health and Welfare Benefit Plan and Trust, the Ohio Association of School Business Officials Workers' Compensation Group Rating Program for the period January 1, 2003 to June 30, 2003, and the Ohio Schools Risk Sharing Authority. In addition, the Center was associated with the Ohio School Boards Association Workers' Compensation Group Rating Plan for the period July 1, 2002 to December 31, 2002. Information about these organizations is presented in Note 16 to the general purpose financial statements.

5. Fiscal Agent Services:

The Center serves as fiscal agent for the West Central Special Education Regional Resource Center (SERRC), the West Central Ohio Assistive Technology Center, and the Hardin County Local Professional Development Committee (LPDC). The Center also administers funds belonging to the Teachmaster, and the Ohio Resource Center for Low Incidence Severe Handicap (ORLISH) grants awarded to the SERRC. The Center is holding funds belonging to Regional Professional Development Committee (RPDC). Accordingly, this activity is presented as agency funds within the Center's financial statements.

The Center has a contract with the Auglaize County Educational Center Service Center to provide Treasurer consulting services. During July 2000, the Center entered into a contract with Hardin Northern Local School District, Hardin County to provide accounting services to the School District.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. 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.

Capital Projects Funds - The Capital project fund is used to account for financial resources and expenditures for a capital grant.

2. Fiduciary Fund Type:

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.

3. 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The modified accrual basis of accounting is followed for the governmental and agency funds.

Revenue resulting from exchange transaction, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place and the resources are available. Available means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the Center receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized on the modified accrual basis in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Center must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis.

Under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, investment earnings, tuition and fees, and customer services.

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded as deferred revenue.

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.

In the first quarter of each fiscal year, the Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget document consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer’s retirement contributions, and travel expenditures of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Center. Part (C) includes the adopted appropriation resolution of the Center.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

1. 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.

2. 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.

3. 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 records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to STAR Ohio. Investments are stated at cost. Investment earnings are allocated as authorized by State Statute. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The school district has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. STAR Ohio is an investment pool managed by the State Treasurer's office which allows governments within 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, 2003.

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 2003 amounted to $13,170, which includes $3,578 from other Center’s funds and funds held in the fiscal agent capacity.

For purposes of the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. Investments with an initial maturity of more than three months, which are not purchased from the pool, are reported as investments.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, 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 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. Investments in the general fixed assets account group are not depreciated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

Entitlements
General Fund

State Foundation Program
Medical Assistance Program (Medicaid Title XIX)

Non-Reimbursable Grants
Special Revenue Funds

Education Management Information Systems
Public School – Preschool
School Net
Alternative/Opportunity School
Special Education_Grants to States (IDEA Part B)
Special Education_Preschool Grants (IDEA Part B)

Grants and entitlements amounted to approximately 54 percent of the Center's operating revenue during the 2003 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 eligible 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or non-routine 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 or results of operations 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.

3. ACCOUNTABILITY

At June 30, 2003, the Special Revenue Fund Type had a deficit fund balance of $44,754. This deficit was created by the implementation of GAAP. The General Fund provides transfers to cover deficit balances; however, this done when cash is needed rather than when accruals occur.

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 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 and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types

	General	Special Revenue	Capital Projects
Budgetary Basis	$(321,136)	$(47,457)	$(2,812)
Increase (Decrease) Due To:			
Revenue Accruals	111,690	11,585	-
Expenditure Accruals	94,592	(27,438)	-
Encumbrances Outstanding (Budget Basis)	34,427	8,158	-
GAAP Basis	$(80,427)	$(55,152)	$(2,812)

5. EQUITY IN POOLED CASH AND INVESTMENTS

A. Deposits

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

Active Monies - 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) account, or in money market deposit accounts.

5. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Inactive Monies - are public deposits that the Board has identified as not required for use within the current two year period 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 Monies - 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.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) or by the financial institution with 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 bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;

2. Bonds, notes, debentures, or other obligations of 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 the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and 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 (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;

6. The State Treasurer's Investment pool (STAROhio);

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 Service Center, 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.

5. EQUITY IN POOLED CASH AND INVESTMENTS (Continued

At fiscal year-end the Center had $100 in undeposited cash on hand which is included on the balance sheet of the Center as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchased Agreements), and Reverse Repurchase Agreements."

At fiscal year end, the carrying amount of the Center's deposits was $177,033 the bank balance was $363,721. Of the bank balance, $200,000 was covered by federal depository insurance and $163,721 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the name of the Center, and all State statutory requirements for the deposit of the money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

B. Investments

The Center's investments are categorized below to give an indication of the level of risk assumed by the Center at fiscal 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 which 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. The Center's investment in STAR Ohio is unclassified because it is not evidenced by securities that exist in physical or book form. At year end, the Center's investment in STAROhio had a market value of $511,734.

During fiscal year 2003, the Center maintained a repurchase agreement which was converted to a depository account by the banking institution.

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	$ 688,867	$0
Cash on Hand	(100)	
Cash Management Pool:		
STAR Ohio	(511,734)	511,734
GASB Statement No. 3	$ 177,037	$ 511,734

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 agreed upon deduction from $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 $37. 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.

7. RECEIVABLES

Receivables at June 30, 2003 consisted of accounts, fees and contract services, interfund, due from other funds and intergovernmental grants. 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:

	Amounts
General Fund:	
Accounts	555
Fees (Contract Services) Receivable	$ 344,333
Interfund Receivables	
Special Revenue IDEA FY '03	52,000
Special Revenue ECSE FY '03	13,000
Due from Other Funds	40,000
Total General Fund Receivables	449,888
Special Revenue Fund:	
Intergovernmental Receivables	126,802
Total Special Revenue Fund	126,802
Total Receivables	$ 576,690

8. FIXED ASSETS

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

Classification	Balance at June 30, 2002	Additions	Deletions	Balance at June 30, 2003
Furniture, Fixtures & Equipment	$ 379,595	$27,874	$ -	$407,469

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 2003, the Center joined the Ohio Schools Risk Sharing Authority (OSRSA) for general liability insurance with a $3,000,000 single occurrence limit and a $5,000,000 annual aggregate. Property is also protected by OSRSA with a building and business personal property limit of $207,699.

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage 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 Hardin County 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 withdraw 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 2003, 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.

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 defined benefit pension plan 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. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. 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 Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001, were were $36,037, $32,358, and $20,365, respectively; 91 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of $3,222 is recorded as a liability within respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The School District 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 retirement and disability benefits to members and death and survivor benefits to 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP or CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

10. DEFINED BENEFIT PENSION PLANS (Continued)

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP 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.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and the School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations.

Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The Center's contributions to STRS for the years ended June 30, 2003, 2002 and 2001 were $192,244, $96,120, and $60,696, respectively; 94 percent has been contributed for fiscal year 2003 and 100 percent for fiscal years 2002 and 2001. The unpaid contribution for fiscal year 2003, in the amount of $12,275 is recorded as a liability within respective funds and the general long-term obligations account group.

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, 2003, one board of education member has elected Social Security. The Board's liability is 6.2 percent of wages paid.

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 Teachers Retirement Board has 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 law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll.

For fiscal year 2003, the Board allocated employer contributions equal to one percent of covered payroll to the Health Care Reserve Fund from which payments of health care benefits are paid. The balance in the Health Care Reserve Fund was 3.011 billion at June 30, 2002 (the latest information available).

For the fiscal year ended June 30, 2002, net health care costs paid by STRS were $354,697,000 and STRS had 105,300 eligible benefit recipients. For the Center, the amount contributed for postemployment benefits equaled $11,773 during the 2003 fiscal year.

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 period, employer contributions to fund health care benefits were 5.83 percent of covered payroll. 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 2003, the minimum pay had been established at $14,500. 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, 2002 were $182,946,777 and the target level was $274.4 million. At June 30, 2002, the Retirement System's net assets available for payment of health care benefits was $335.2 million. The number of participants currently receiving health care benefits is approximately 50,000. For the Center, the amount to fund health care benefits, including the surcharge, was $45,552 for the fiscal year ended June 30, 2003.

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 contracts.

13. CAPITAL LEASES

The Center has entered into two capitalized lease agreements 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 general fund debt service expenditures in the combined financial statements for governmental funds. These expenditures are reported as function expenditures on the budgetary statements.

13. CAPITAL LEASES (Continued)

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of $70,373. 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 2003 totaled $14,121 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, 2003:

Fiscal Year Ending June 30:	Amounts
2004	16,740
2005	16,740
2006	11,455
2007	3,200
Total minimum lease payments	$48,135
Less: Amount representing interest	5,690
Present Value of net minimum lease payments	$42,445

14. LONG TERM OBLIGATIONS

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

	Balance at June 30, 2002	Additions	Deductions	Balance at June 30, 2003
Compensated Absences Payable	$67,705	$ 0	$10,964	$56,741
Intergovernmental Payable	3,279	6,614	3,279	6,614
Capital Lease Payable	56,566	-	14,121	42,445
Total General Long Term Obligations	$127,550	$6,614	$28,364	$105,800

15. JOINTLY GOVERNED ORGANIZATION

A. 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 Sonny Ivey, Director, at 129 E. Court Street, Sidney, Ohio 45365.

15. JOINTLY GOVERNED ORGANIZATION (Continued)

B. 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.

C. 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 operations. The jointly-governed board 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, 1211 West Lima Avenue, Suite A, Kenton, Ohio 43326.

16. INSURANCE POOLS

A. Hardin County School Employees' Health and Welfare Benefit Plan and Trust

The Hardin County School Employees' Health and Welfare Benefit Plan 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 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.

B. Ohio School Boards Association Workers' Compensation Group Rating Plan

During the period July 1, 2002 through December 31, 2003, the Center participated in a group rating plan (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 and the Center pay an enrollment fee to the GRP to cover the costs of administering the program.

16. INSURANCE POOLS (Continued)

C. Ohio Association of School Business Officials Workers' Compensation Group Rating Plan

During the period January 1, 2003 through June 30, 2003, the Center participated in a group rating plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President, President-Elect, Vice-President. The Executive Director also sits on this Board.

D. Ohio Schools Risk Sharing Authority (OSRSA)

The Center participates in the Ohio Schools Risk Sharing Authority (OSRSA), a protected self-insurance pool created and administered under the authority of Ohio Revised Code 2744. The OSRSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint self-insurance pool and to assist members, including the Center, to prevent and reduce losses and injuries to Center property and persons and program for maintaining adequate insurance protection and provides risk management programs and other administrative services. Member contributions are based on actuarially determined rates and are allocated to a self-insurance pool (for claims and assessments), reinsurance coverage (for catastrophic losses), and a third party administrator (to handle claims and administrative expenses). The Third Party Administrator is Frank Gates Service Company. Financial information can be obtained from Ohio Schools Risk Sharing Authority, Inc., 655 Metro Place South, Suite 900, Dublin, Ohio 43017.

17. SCHOOL FOUNDATION PROGRAM

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "…the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient…".

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and its financial operations.

18. CONTINGENCIES

Grants

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 are 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, 2003.

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

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

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity or Number	Receipts	Disbursements
Educational Service Center (ESC)				
UNITED STATES DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-SF 02P	$5,760	$28,731
	84.027	6B-SF 03P	189,236	237,427
Total Special Education Grants to States			194,996	266,158
Special Education Preschool Grants	84.173	PG-S1-02P	11,811	13,264
	84.173	PG-S1-03P	17,086	27,928
Total Special Education Preschool Grants			28,897	41,192
Total Special Education Cluster			223,893	307,350
UNITED STATES DEPARTMENT OF HUMAN SERVICES				
(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)				
Medical Assistance Program	93.778		20,373	20,373
	93.778		89,481	89,481
Total Medical Assistance Program			109,854	109,854
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR EDUCATIONAL SERVICE CENTER			333,747	417,204
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-AA 03P	9,375	550
	84.027	6B-II 03P	64,000	25,000
	84.027	6B-SA 02P	10,000	10,000
	84.027	6B-SX-02P		8,159
	84.027	6B-SE 03P	15,000	11,105
	84.027	6B-SI 02P	180,501	243,786
	84.027	6B-SI 03P	686,112	643,966
Total Special Education Grants to States			964,988	942,566
Special Education Preschool Grants	84.173	PG-S3-02P	14,910	22,060
	84.173	PG-S7-02		2,429
Total Special Education Preschool Grants			14,910	24,489
Total Special Education Cluster			979,898	967,055
Regional Autism Initiative	84.158	47480	6,000	4,861
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR SERRC			$985,898	$971,916
GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE BOTH ESC AND SERRC			$1,319,645	$1,389,120

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

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures 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 Education Regional Resource Center (SERRC) is an organization comprised of the Centers 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 Special Education Grants to States and Special Education Preschool Grants (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 grants are audited as part of the Center and are separately identified on the Schedule of Federal Awards Expenditures.

NOTE C - REIMBURSEMENT ENTITLEMENT

The District received a reimbursement type entitlement for which expenditures are realized when revenue is received. This entitlement is for the Medical Assistance Program (Medicaid Title XIX) also known as Community Alternative Funding (CAFS).

NOTE D - FEDERAL AWARDS EXPENDITURES ADMINISTERED FOR OTHER GOVERNMENTS

The Center applies for and administers grants on behalf of member School Districts. The Center reports these grants on their schedule of federal awards expenditures programs and they are subject to audit during the Center's annual audit according to the Single Audit Act (A-133). Awards which were reported by the Center which benefit member districts are as follows:

District	FY 03 Award Amount IDEA Part B	FY 03 Award Amount IDEA Preschool
Hardin Northern Local School District	$44,547	$2,736
Ridgemont Local School District	59,893	6,340
Riverdale Local School District	101,340	2,067
Upper Scioto Valley Local School District	86,944	4,968
Kenton City School District		10,653
Ada Exempted Village School District		2,904
Total Grant	**$292,724**	**$29,668**

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT 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, Hardin County (the "Center"), as of and for the year ended June 30, 2003, and have issued our report thereon dated June 8, 2004, wherein we were not able to obtain complete and accurate accounting records to support Contract Services (Excess Costs) Receivable and the related portion of Deferred Revenue, Contract Services (Excess Costs) Payable if any, and Tuition, Fees, and Contract Services in the General Fund. Except as discussed above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 and questioned costs as item 2003-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Center in a separate letter dated June 8, 2004.

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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-002 and 2003-003.

One First National Plaza / 130 W. Second St. / Suite 2040 / Dayton, OH 45402
Telephone: (937) 285-6677 (800) 443-9274 Fax: (937) 285-6688
www.auditor.state.oh.us

**Internal Control Over Financial Reporting
(Continued)**

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-003 to be a material weakness. We also 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 Center in a separate letter dated June 8, 2004.

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

Betty Montgomery
Auditor of State

June 8, 2004

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS 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 are applicable to its major federal program for the year ended June 30, 2003. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the 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.

As described in item 2003-004 in the accompanying schedule of findings and questioned costs, the Center, did not comply with requirements regarding cash management, period of availability, and reporting that are applicable to both the Center's and the West Central Ohio Special Education Regional Resource Center's (SERRC) Special Education Cluster Grants. The Center acts as fiscal agent for the SERRC. Compliance with such requirements is necessary, in our opinion, for the Center to comply with requirements applicable to these programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2003. We also noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of Center in a separate letter dated June 8, 2004.

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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 of Education, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

June 8, 2004

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 § .505
JUNE 30, 2003

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	**Type of Financial Statement Opinion**	Qualified
(d)(1)(ii)	**Were there any material control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(d)(1)(ii)	**Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?**	Yes
(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?**	Yes
(d)(1)(v)	**Type of Major Programs' Compliance Opinion**	Qualified
(d)(1)(vi)	**Are there any reportable findings under § .510?**	Yes
(d)(1)(vii)	**Major Programs (list):**	Special Education Cluster: Special Education Grants to States: CFDA # 84.027 and Special Education - Preschool Grants: CFDA # 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?**	No

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

FINDING NUMBER 2003-001

Finding for Recovery – Repaid Under Audit

Superintendent's Limited Contract dated February 26, 1998, which was amended by the Salary Notice, dated July 18, 2001 and **Superintendent's Limited Contract, dated July 11, 2002**, set the annual contract of Lou Ann Harrold, Superintendent, for the period beginning August 1, 2001 and ending July 31, 2003 at $77,000. **Superintendent's Limited Contract , dated August 30, 2002**, increased the annual salary of Lou Ann Harrold, Superintendent, for the period beginning August 1, 2002 and ending July 31, 2004 to $78,720. **Educational Service Center Board Minutes dated May 8, 2003,** stated that due to budget constraints each employee would receive one less day of salary on their current contract.

Based on the above information, Lou Ann Harrold's pay for fiscal year 2003 should have consisted of two pay periods at the July 18, 2001 contract amount, three pay periods at the July 11, 2002 contract amount, and 21 pay periods at the August 30, 2003 contract amount reduced by one day, for total fiscal year 2003 wages of $78,267.65. During fiscal year 2003, Lou Ann Harrold was paid $79,657.76 which resulted in an overpayment of $1,390.11.

Annual Contract	Annual Contract Amount	Bi-weekly Pay Amount	Number of pay periods in FY 2003 that were covered by the contract	Total Amount Due Under Contract
July 18, 2001	$77,000	$2,961.54	2	$5,923.08
July 11, 2002	$77,000	$2,961.54	3	$8,884.62
August 30, 2003	$78,720	*$3,036.32	21	$63,762.72
One Day Reduction in Pay				($302.77)
Total Wages for FY 2003				$78,267.65

* The August 30, 2003 contract amount was an annual contract to end on July 31, 2004. Therefore, the bi-weekly payment is determined by subtracting the three pay periods at the old rate from the new annual contract, dividing this amount by the remaining 23 pay periods in the contract period, and then multiplying this amount by the remaining 21 pay periods in the fiscal year.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Lou Ann Harrold, and her bonding company Nationwide Agribusiness Insurance Company, and Krista Hart, Treasurer, and her bonding company The Ohio Casualty Insurance Company, jointly and severally, and in favor of the Educational Service Center's General Fund, in the amount of $1,390.11. On May 6, 2004, this finding for recovery was repaid with receipt number 75563.

Client Response: The overpayment to the superintendent was the result of an error in calculating a retro-active pay increase and was immediately rectified upon discovery.

FINDING NUMBER 2003-002

Reportable Condition

Supporting Documentation and Approval for Activity Between Funds

To help assure financial accountability, all adjustments made to activity between funds should have supporting documentation that clearly indicates which funds were involved and why the transaction occurred. The governing body should also approve all adjustments of activity between funds. During 2003, the Center recorded 78 adjustments between funds in excess of $350,000 which affected 365 line items. These adjustments were done by utilizing the receipt function to record a reduction in one fund and an increase in a different fund or line item. Although these reallocations did not appear to be illegal, they were recorded without initially providing supporting documentation indicating why the entry was necessary (i.e. to correct Jane Doe's salary and benefits in the amount of xxx for pay period xxx originally recorded incorrectly in the xxx fund) or receiving Board approval. In some instances, the adjustments between funds were the result of initially recording expenditures in the General Fund until another fund received revenue.

The failure to record activity between funds without adequate supporting documentation and Board approval could result in errors or irregularities occurring and not being detected in a timely manner. In addition, these transactions could result in the material misstatement of the financial statements or the illegal expenditure of grant money. Reflecting grant expenditures in the General Fund understates the fund balance which results in accurate financial reports to the Board.

The Center should maintain supporting documentation, as transactions occur, for all activity recorded between funds. All activity between funds including posting corrections and reasons for these corrections should be approved by the Board. In addition, to minimize the number of correcting transactions, the Center should advance money, approved by the Board, from the General Fund to cover potential shortages in other funds. The advance can be repaid when revenues are received in the fund that received the advance. The Center should refer to AOS Audit Bulletin 97-003. The Board and/or Audit Committee should review activity between funds to help assure the existence of supporting documentation and approval by the Board.

Client Response: Adjustments between funds are necessary in order to keep grant funds in a positive balance. The ESC charged expenses to the General Fund pending receipt of grant money, and upon receipt of grant money, corrected the account codes to properly charge those expenses to the grant fund. Prior to each board meeting, board members receive reports reflecting these transactions and the reports are approved at each board meeting. This has been a continuing problem for many years due to the slow release of grant money from the State.

FINDING NUMBER 2003-003

Reportable Condition/Material Weakness

Support for Excess Cost Calculations

When an entity utilizes a cost allocation plan as support for billing customers, the entity should be able to provide supporting documentation for the costs used to calculate the billings. The Center contracts with school districts in the County for special education services, and costs to be charged to the school districts are determined by allocating the direct and indirect costs of providing these services to the school districts. The school districts then have these costs withheld from their foundation payments and/or are billed directly for the costs during the year. At the end of the Center's fiscal year, each school district's account is finalized by comparing actual costs to revenues withheld from foundation payments, direct billings, grants received related to the programs, and reimbursements received by the Center from Medicaid. A determination is then made as to whether the Center is owed money by a school district or if the Center owes money back to a school district. This receivable or payable is recognized on the Center's financial statements and is billed or refunded to each school district in the subsequent fiscal year.

During the review of the Centers excess cost calculations the following discrepancies were noted:

- Amounts reported as due or credited from the FY 02 calculations did not always reconcile to the prior year audited balances. Differences were over-credited or undercharged for one district in the amount of $6,249, and overcharged or under-credited for another district in the amount of $6,991.
- Amounts credited by the Center for school district payments were compared to the amounts confirmed by each school district. Confirmations indicated that $9,947 payments were made to the Center which were not credited on the final settlement sheets.
- Expenses for travel, materials and supplies and other non-payroll related expenses in excess of $1,000 were reviewed for supporting documentation. A total of $26,504 in expenditures could not be supported. In addition, June, 2003 expenditures for travel, continuing education, and materials and supplies, in the amount of $21,087, were identified that were not included in the year-end excess cost (contract services) receivable reported in the financial statements. Some of these expenses were in line items for which support could not be provided for the original billings.
- Some of the expenditures on the excess cost calculation sheet were budget expenses instead of actual expenditure amounts. These errors resulted in overcharges of $6,624 to seven line items.
- The Center receives reimbursements from Medicaid for Occupational Therapy and Speech and Psychology services provided and billed to school districts.
    - It is the Center's practice not to credit school districts for Medicaid reimbursements received for Occupational Therapy in the current year until the subsequent year. During 2003, the Center credited school districts for Occupational Therapy reimbursements in the amount of $27,724, however the Center received $37,251 in Medicaid reimbursements during 2002. The difference was kept by the Center to offset Third Party Administrator costs for processing Medicaid claims in the amount of $7,292 plus an overhead charge of $2,235. The Center normally allocated overhead charges to participating school districts based on expenditures of each program including Occupational Therapy, where as, in this situation the overhead charge was computed on the Medicaid reimbursement of $37,251.

FINDING NUMBER 2003-003
(Continued)

Reportable Condition/Material Weakness

Support for Excess Cost Calculations

- The Center does not credit school districts for Medicaid reimbursements received for Speech and Psychology services provided to the school districts. At June 30, 2002, the Center had accumulated $251,794 in Speech and Psychology reimbursements within a special cost center in the General Fund. During 2003, the Center advanced $100,000 from this special cost center to the General Fund for general operating expenses and on June 30, 2003 advanced $52,000 to the IDEA federal grant fund and $13,000 to the Early Childhood Special Education federal grant fund from this special cost center. During 2003, the Center received an additional $89,481 in Speech and Psychology services. The Center's contracts with the school districts do not indicate that Medicaid reimbursements for Speech and Psychology will not be credited back to the school districts.

As a result of the above noted discrepancies, the Center cannot support Contract Services (Excess Costs) Receivable in the amount of $344,333, deferred revenue in the amount of $148,739, and the failure to report Contract Services (Excess Costs) Payable, if any, in the General Fund on the Combined Balance Sheet as of June 30, 2003, and Excess Cost revenue in the amount of $195,594 recorded in the Tuition, Fees, and Contract Services line-item of the General Fund in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances for the fiscal year ended June 30, 2003.

The supporting documentation for the excess cost calculations should be reviewed to help assure accuracy, to help assure that all revenue received from each school district and/or on behalf of each school district are credited to the school district, and that at year-end each school district's account is finalized in a timely manner. The finalized account of each school district should be used to record the excess cost receivable and/or payable on the Center's financial statements. Monitoring procedures should be implemented by the Center's Board and/or Audit Committee to help assure the discrepancies with excess cost billings are corrected. As part of the monitoring process, the Center should consider forming a committee comprised of Treasurer's from participating school districts, to review excess cost calculations prior to approval of contracts with each school district. In addition, the Audit Committee should review advances and transfers to help assure that they do not involve legally restricted money.

The Center should review the Medicaid Grant requirements to make a determination on the legality of not refunding Medicaid Speech and Psychology reimbursements to school districts. If necessary, accumulated reimbursements should be credited to the school districts.

Client Response: In April of each year the ESC Superintendent and Treasurer meet with each district Superintendent and Treasurer to review the current year program costs as well as future anticipated services from the ESC and associated costs. At this meeting the district is given the opportunity to make suggestions about meeting staffing needs and also is given the opportunity to discuss any issues that may need to be resolved with the program cost calculations. Due to the complexity of the program cost calculations, we must treat all six of the districts in the same manner when it comes to billing. The ESC tries to consider all district suggestions when the program cost format is changed or altered in any way.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Finding Number	**2003-004**		
CFDA Title and Number	Special Education Grants to States CFDA #84.027 (ESC & SERRC) Special Education Preschool Grants CFDA #84.173 (ESC & SERRC)		
Federal Award Number/Year	047480 - 6B-SF-02P	IDEA Part B FY 02	ESC
	047480 - 6B-SF-03P	IDEA Part B FY 03	ESC
	047480 - PG-SI-03P	ECSE FY 03	ESC
	047480 - PG-SI-02P	ECSE FY 02	ESC
	047480 – 6B-SI-01P	IDEA Part B FY 01	SERRC
	047480 – 6B-SI-02P	ECSE FY 02	SERRC
	047480 - 6B-SI-03P	IDEA Part B FY 03	SERRC
	047480 – PG-S3-02P	ECSE FY 02	SERRC
	047480 – 6B-SI-02P	IDEA Part B FY 02	SERRC
	047480 – 6B-SI-03P	IDEA Part B FY 03	SERRC
	047480 – 6B-SA-02P	IDEA Part B FY 02	SERRC
Federal Agency	U.S. Department of Education		
Pass-Through Agency	Ohio Department of Education		

Noncompliance

Period of Availability and Questioned Costs

34 CFR Section 80.23 (b) requires liquidation of obligations no later than 90 days (or as specified in the program regulations) after the end of the funding period. Ohio Department of Education (ODE) Federal Fiscal Report Procedures #1, Requirement #2, states the data reported must reflect actual expenditures. For Center programs included in the FY 03 Consolidated Application, the period of availability begins on the approval date and ends on June 30. For Center programs prior to FY 03 and all SERRC programs, the period of availability is July 1, to September 30.

The Center has interpreted “encumbered” to mean “obligated” and issued purchase orders at the end of the grant period for goods which had not been ordered or services which had not been performed as of the grant ending date. Federal expenditures were charged to the grant for goods and services which were not “obligated” within the grant period. See the table below for a summary of amounts for each program.

Noncompliance

Cash Management

31 CFR Part 205 states that funds must be expended within the period of time for which cash is requested. Ohio Department of Education Project Cash Request (PCR) #1, Instructions #2 (A) (2), indicates that total expenditures should reflect the total amount of project cash expended as of the date of the request.

Cash balances were on hand for grants for which the Final Expenditure Report (FER) indicated all funding had been spent. The Center reported expenditures on the PCR which were not supported by the underlying accounting records. See the table below for a summary of cash balances which were on hand for which the FER indicated all funding was spent.

FINDING NUMBER 2003-004
(Continued)

Noncompliance

Reporting

Ohio Department of Education (ODE) Final Expenditure Report (FER) instruction #1 indicates that an FER must be submitted for each project no later than 60 days after the project ending date. **ODE Final Expenditure Report Procedure #3 - Fiscal Summary** indicates that the total expenditures should reflect the total project funds expended for this project and indicates the cash balance on hand should reflect cash received but not expended. **ODE Final Expenditure Report Instruction #4** indicates that failure to submit an FER or correct FER discrepancies in a timely manner may result in a temporary suspension of the flow of federal funds for the project. The Center failed to file corrected FERs for projects which had cash balances but which the submitted FER reported all funding had been spent. In addition, some projects reported all funding was spent, but some expenditures were not in the period of availability for that program. See the table below for a summary of expenditures reported on the FER for which the obligations did not occur in the period of availability.

Description	Project/Pass-thru	Obligations not in the period of availability	Cash Management Non Compliance	Reporting Noncompliance	Questioned Cost
Pass thru/Proj Grant Center Fund CFDA #	047480 - 6B-SF-02P IDEA Part B FY 02 516-9004 (ESC) 84.027	$4,008		Funds were reported as spent on the Final Expenditure Report, however the expenditures reported here were not obligated within the available period.	$4,008
Pass thru/Proj Grant Center Fund CFDA #	047480 - 6B-SF-03P IDEA Part B FY 03 516-9005 (ESC) 84.027	1,732		Funds were reported as spent on the Final Expenditure Report, however the expenditures reported here were not obligated within the available period.	1,732
Pass thru/Proj Grant Center Fund CFDA #	047480 - PG-S1-03P ECSE FY 03 587-9004 (ESC) 84.173	698		Funds were reported as spent on the Final Expenditure Report, however the expenditures reported here were not obligated within the available period.	698
Pass thru/Proj Grant Center Fund CFDA #	047480-PG-S1-02P ECSE FY 02 587-9003 (ESC) 84.173	Cash Balance 117	Funds should have been liquidated by September 30, 2002 but were on hand at June 30, 2003.	The Final Expenditure Report (FER) was not dated. It was stamped by the ODE on July 30, 2002. It indicated that the funds had all been spent.	117
Pass thru/Proj Grant Center Fund CFDA #	047480-6B-S1-01P IDEA PART B 200-9510 (SERRC) 84.027	Cash Balance 2,755	Funds should have been liquidated by November 30, 2001 but were on hand at July 31, 2003 after the repayment to ODE for the FY 02 finding.	The FER dated November 21, 2001 indicated all funding had been spent.	2,755
Pass thru/Proj Grant Center Fund CFDA #	047480-PG-S3-02P ECSE FY 02 200-9512 (SERRC) 84.173	Cash Balance 2,013	Funds should have been liquidated by November 30, 2002 but were on hand at June 30, 2003.	The FER dated November 7, 2002 indicated all funding had been spent.	2,013
Total					**11,323**

Based on the facts identified above, questioned costs in the amount of $11,323 for project numbers 047480 - 6B-SF-02P, 047480 - 6B-SF-03P, 047480 - PG-S1-03P, 047480-PG-S1-02P, 047480-6B-S1-01P, and 047480-PG-S3-02P are being issued.

FINDING NUMBER 2003-004
(Continued)

Other Non Compliance

Cash Management and Reporting

31 CFR Part 205 states that funds must be expended within the period of time for which cash is requested. ODE Project Cash Report (PCR) #1 Instructions #2 A (2) indicates that total expenditures should reflect the total amount of project cash expended as of the date of the request. The Center, as fiscal agent, is responsible to complete the PCR forms for the Special Education Regional Resource Center (SERRC) special education federal grants. In two instances, the Center reported expenditures on the PCR's for the SERRC which were higher than the expenditures in the accounting records. Project 047480-6B-S1-03P IDEA Part B FY 03 Center Fund 200-9514 had a PCR dated October 31, 2002 on which expenditures were overstated by $23,774 and a PCR dated February 5, 2003 on which expenditures were overstated by $40,700. Overstating the expenditures on the PCR could result in the Center maintaining cash balances in excess of amounts allowed by the grant. Failure to follow grant guidelines could jeopardize future funding. The Center should report information on the PCR that can be supported by the accounting records and should print those accounting records and attach them to the copy of the PCR maintained in the grant file.

The ODE Final Expenditure Report (FER) instruction #1 indicates that an FER must be submitted for each project no later than 60 days after the project ending date. One FER for Project 047480-6B-SA-02P IDEA Part B Center Fund 200-9600 was due December 30, 2003 and was filed January 6, 2004. Failure to submit project reports as required could jeopardize future funding for the project. The Center should file reports in a timely manner as required for each grant.

The Center's management should develop training procedures to ensure that all employees responsible for grant management are properly educated on the compliance requirements. The Center should also contact the grantor agency if there are questions regarding a compliance requirement. The Center should accurately report the cash receipts and expenditures on the "Project Cash Requests" and "Final Expenditure Reports" (FER). Amounts reported should be supported by the underlying accounting records. Information supporting amounts reported should be printed and maintained in the grant files attached to each report. FERs have a box to indicate a corrected FER, therefore FER's which have been filed and are determined to have erroneous information should be corrected and filed with the grantor agency as a corrected FER. Cash balances on hand after the period of liquidation should be returned to the grantor agency with the FER (or corrected FER) as required. The Center's Board and/or Audit Committee should implement monitoring procedures to help assure the implementation of procedures to help assure compliance with federal grants.

Client Response:

- We did interpret "encumbered" to mean "obligated". Once a purchase order is issued nothing can be changed on that purchase order unless it is voided and reissued with a new date.
- Questioned costs on project number 047480-6B-S1-01P from fiscal year 2002 audit were not returned to ODE as ODE did not request return of those funds and instructions were given to the ESC to hold the funds until told to return them.
- The ESC is prevented by law from advancing General Fund money to agency funds. Project cash requests had been submitted for SERRC funds (Which are agency funds to the ESC) that included expenditures plus encumbrances in an attempt to keep the agency funds solvent.

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***:
2002-10233-001	ORC Sec. 3317.11 (A) – Failure to file annual budget	No	Requirement no longer applicable starting in FY 2004. Comment not repeated
2002-10233-002	Fulfillment of Contract Obligations	N/A	This contract expired in the prior audit period and is N/A for this audit
2002-10233-003	Accurate Reporting of Budgeted Revenues and Expenditures	No	Partially corrected. Repeated in management letter.
2002-10233-004	Supporting Documentation and Approval for Activity Between Funds	No	Repeated as finding 2003-002
2002-10233-005	Findings and Questioned Costs over the Period of Availability and Reporting Requirements	No	Repeated as finding 2003-004.

Auditor of State
Betty Montgomery

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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
JULY 22, 2004