



**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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Educational Service Center, Hardin County, (the "Center"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2004, and the respective changes in financial position and the respective budgetary comparison for the General and IDEA Funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the fiscal year ended June 30, 2004, the Center implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2005, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The schedule of federal awards expenditures is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 11, 2005

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED**

The discussion and analysis of the Educational Service Center, Hardin County, (the "Center"), financial performance provides an overall view of the Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Net assets of governmental activities decreased \$127,152.
- General revenues accounted for \$785,765 in revenue or 29.58 percent of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$1,870,225 or 70.42 percent of total revenues of \$2,655,990.
- The Center had \$2,783,142 in expenses related to government activities; \$1,870,225 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$785,765 were not adequate to provide for these programs.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole Center, presenting both an aggregate view of the Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Center's two major funds, the General Fund and Individuals with Disabilities Education Act (IDEA) Fund, and all other non-major funds presented in total in one column. In case of the Center, the General fund and the IDEA fund are the most significant funds.

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting reports all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the Center has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include the Center's current laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, governmental activities are shown.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Reporting the Center as a Whole

- **Governmental Activities** - Most of the Center's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation and extracurricular activities.

Reporting the Center's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the General and IDEA funds.

Governmental Funds - Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* that can readily be converted into cash. The governmental fund statements provide a detailed *short-term view* of the Center's general government operations and the basic services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the financial statements.

The Center as a Whole

Recall that the Statement of Net Assets provides the perspective of the Center as a whole.

Table 1 provides a summary of the Center's net assets for 2004. As this is the first year for the Center to report under Governmental Accounting Standards Board (GASB) Statement No. 34, comparisons to the previous year are not available.

**Table 1
Net Assets**

	Governmental Activities 2004
Assets:	
Current and Other Assets	\$1,020,935
Capital Assets, Net	70,470
Total Assets	1,091,045
 Liabilities:	
Current and Other Liabilities	436,143
Long-Term Liabilities	108,933
Total Liabilities	545,076
 Net Assets:	
Invested in Capital Assets, Net of Related Debt	41,832
Unrestricted	504,497
Total Net Assets	\$546,329

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Equity in pooled cash and cash equivalents increased \$282,466.

Table 2 shows the changes in net assets for fiscal year 2004. Since this is the first year the Center has prepared financial statements under GASB Statement No. 34, revenue and expense comparisons to fiscal year 2003 are not available.

**Table 2
Change in Net Assets**

	2004
Revenues	
Program Revenues:	
Charges for Services and Sales	\$1,293,141
Operating Grants, Contributions, and Interest	577,084
Total Program Revenues	1,870,225
General Revenues:	
Grants and Entitlements	649,033
Investment Earnings	7,271
Miscellaneous	129,461
Total General Revenues	785,765
Total Revenues	2,655,990
 Expenses	
Instruction:	
Regular	178,409
Special	473,020
Vocational	316
Other	58
Support Services:	
Pupils	659,245
Instructional Staff	246,264
Board of Education	18,573
Administration	452,724
Fiscal	210,743
Operation and Maintenance of Plant	19,566
Central	15,476
Non-Instructional Services	285
Extracurricular Activities	1,636
Intergovernmental	503,894
Interest and Fiscal Charges	2,933
Total Expenses	2,783,142
Decrease in Net Assets	(\$127,152)

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Governmental Activities

Support Services and intergovernmental expenses comprised 76.6 percent of governmental program expenses as the purpose of the Center is to provide services to the county schools. Instruction and interest expenses were 23.4 percent of all governmental program expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. That is, it identifies the cost of these services supported by customer services and unrestricted State entitlements. Charges for services in the amount of \$1,293,141 accounted for 69 percent of the total program revenue. This statement is presented on page 9.

The Center's Funds

Information about the Center's major funds starts on page 10. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,706,335 and expenditures of \$2,687,937. The net change in General fund balance for the year was a decline of \$37,326. This decline indicated that the Center needed to increase its revenue base to continue meeting Center obligations as a whole.

General Fund Budgeting Highlights

The Center's budget and actual statements are based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted funds are the General and IDEA funds.

During fiscal year 2004 the Center made numerous routine budget modifications. The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis actual revenue was \$2,371,481 which exceeds both the original budget estimate of \$2,093,150 and final budget estimate of \$2,349,946.

The original appropriations of \$2,262,523 were increased to \$2,394,124.

The Center's ending un-obligated cash balance was \$280,035 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2004, the Center had a net investment of \$70,470 in furniture and equipment used in governmental activities. Table 3 shows fiscal year 2004 balances compared to 2003:

Table 3

	Governmental Type Activities	
	2004	2003
Capital Assets (Net of Depreciation)		
Furniture and Equipment	70,470	106,345
Total Capital Assets	<u>\$ 70,470</u>	<u>\$106,345</u>

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
UNAUDITED
(Continued)**

Debt

At June 30, 2004 the Center had long and short term debt due for capital leases. Table 4 summarizes debt outstanding:

**Table 4
Outstanding Debt, at Year End**

	Governmental Activities 2004	Governmental Activities 2003
Capital Lease Payable	<u>\$28,638</u>	<u>\$42,445</u>
Total	<u><u>\$28,638</u></u>	<u><u>\$42,445</u></u>

For the Future

Management must diligently plan expenses, staying carefully within the Center's five-year plan. Additional revenues must not be treated as a windfall to expand programs, but as an opportunity to extend the time horizon of the five-year plan.

In conclusion, the Center has committed itself to financial excellence for many years. All of the Center's financial abilities will be needed to meet the challenges of the future.

Contacting the Center's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors, and creditors with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional information contact Krista Hart, Treasurer of Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326 or e-mail at hartk@hardinesc.org.

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$746,740
Intergovernmental Receivable	126,256
Contract Services Receivable	135,150
Due From Fiduciary Funds	12,789
Depreciable Capital Assets, Net	<u>70,470</u>
Total Assets	<u>1,091,405</u>
Liabilities:	
Accounts Payable	45,066
Accrued Wages	196,483
Intergovernmental Payable	194,594
Long-Term Liabilities:	
Due Within One Year	45,440
Due in More Than One Year	<u>63,493</u>
Total Liabilities	<u>545,076</u>
Net Assets:	
Invested in Capital Assets	41,832
Unrestricted	<u>504,497</u>
Total Net Assets	<u><u>\$546,329</u></u>

See Accompanying Notes to the Basic Financial Statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>	
	<u>Expenses</u>	<u>Charges for Services and Sales</u>		<u>Operating Grants, Contributions, and Interest</u>
Governmental Activities:				
Instruction:				
Regular	\$178,409	\$60,409	\$75,237	(\$42,763)
Special	473,020	262,062		(210,958)
Vocational	316	242		(74)
Other	58	44		(14)
Support Services:				
Pupils	659,245	403,860	3,000	(252,385)
Instructional Staff	246,264	148,787	2,928	(94,549)
Board of Education	18,573	11,504		(7,069)
Administration	452,724	246,411	4,029	(202,284)
Fiscal	210,743	128,313		(82,430)
Operation and Maintenance of Plant	19,566	10,583	2,524	(6,459)
Pupil Transportation				0
Central	15,476	9,543		(5,933)
Non-Instructional Services	285	218		(67)
Extracurricular Activities	1,636	994		(642)
Other		8,389		8,389
Intergovernmental	503,894		489,366	(14,528)
Interest and Fiscal Charges	2,933	1,782		(1,151)
Total Governmental Activities	\$2,783,142	\$1,293,141	\$577,084	(912,917)
General Revenues:				
Grants and Entitlements not Restricted to Specific Programs				649,033
Interest				7,271
Miscellaneous				129,461
Total General Revenues				785,765
Change in Net Assets				(127,152)
Net Assets Beginning of Year (restated)				673,481
Net Assets End of Year				\$546,329

See Accompanying Notes to the Basic Financial Statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004**

	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$724,708		\$22,032	\$746,740
Intergovernmental Receivable		106,082	20,174	126,256
Interfund Receivable	37,918			37,918
Receivable from Fiduciary Fund	12,789			12,789
Contract Services	135,150			135,150
Total Assets	<u>910,565</u>	<u>106,082</u>	<u>42,206</u>	<u>1,058,853</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts Payable	34,282	67	10,717	45,066
Accrued Wages and Benefits Payable	121,036	60,828	14,619	196,483
Intergovernmental Payable	121,333	6,920	2,804	131,057
Interfund Payable		37,918		37,918
Deferred Revenue	135,150			135,150
Total Liabilities	<u>411,801</u>	<u>105,733</u>	<u>28,140</u>	<u>545,674</u>
Fund Balances:				
Reserved for Encumbrances	17,070	89	5,932	23,091
Unreserved, Reported in:				
General Fund	481,694			481,694
Special Revenue Funds		260	8,134	8,394
Total Fund Balances	<u>498,764</u>	<u>349</u>	<u>14,066</u>	<u>513,179</u>
Total Liabilities and Fund Balances	<u>\$910,565</u>	<u>\$106,082</u>	<u>\$42,206</u>	<u>\$1,058,853</u>

See Accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances \$513,179

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

Capital assets used in governmental activities are not financial
resources and, therefore, not reported in the funds. 70,470

Other long-term assets are not available to pay current
period expenditures and therefore are deferred in the funds:
Deferred Revenue - Contract Services Receivable 135,150

Some liabilities are not due and payable in the current
period and therefore are not reported in the funds:
Intergovernmental Payable (\$63,537)
Compensated Absences Payable (80,295)
Capital Leases Payable (28,638)

 (172,470)

Net Assets of Governmental Activities \$546,329

See Accompanying Notes to the Basic Financial Statements

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30 , 2004**

	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Intergovernmental	\$649,033	\$500	\$87,156	\$736,689
Interest	7,271			7,271
Tuition and Fees	1,268,319			1,268,319
Customer Services		389,310	175,285	564,595
Miscellaneous	125,461		4,000	129,461
Total Revenues	<u>2,050,084</u>	<u>389,810</u>	<u>266,441</u>	<u>2,706,335</u>
Expenditures:				
Current:				
Instruction:				
Regular	98,214	93	75,490	173,797
Special	422,815		8,186	431,001
Vocational	316			316
Other	58			58
Support Services:				
Pupils	651,649		3,284	654,933
Instructional Staff	240,074		5,956	246,030
Board of Education	18,573			18,573
Administration	397,450		1,172	398,622
Fiscal	207,010			207,010
Operation and Maintenance of Plant	17,114		2,452	19,566
Central	15,476			15,476
Non-Instructional Services	285			285
Extracurricular Activities	1,636			1,636
Intergovernmental		335,954	167,940	503,894
Debt Service:				
Principal Retirement	13,807			13,807
Interest and Fiscal Charges	2,933			2,933
Total Expenditures	<u>2,087,410</u>	<u>336,047</u>	<u>264,480</u>	<u>2,687,937</u>
Revenues Over (Under) Expenditures	(37,326)	53,763	1,961	18,398
Fund Balances at Beginning of Year (restated)	<u>536,090</u>	<u>(53,414)</u>	<u>12,105</u>	<u>494,781</u>
Fund Balances at End of Year	<u><u>\$498,764</u></u>	<u><u>\$349</u></u>	<u><u>\$14,066</u></u>	<u><u>\$513,179</u></u>

See Accompanying Notes to the Basic Financial Statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net Change in Fund Balances - Total Governmental Funds \$18,398

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

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation in the current year:

Capital Outlay	\$11,854	
Depreciation	<u>(47,729)</u>	(35,875)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds

Grants	(75,677)	
Contract Services	<u>25,332</u>	(50,345)

Repayment of capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.

Capital Lease Principal Payments		13,807
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Some expenses reported on the statement of activities, such as compensated absences and intergovernmental payables which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payable	(63,537)	
Compensated Absences Payable	<u>(9,600)</u>	<u>(73,137)</u>

Change in Net Assets of Governmental Activities		<u><u>(\$127,152)</u></u>
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See Accompanying Notes to the Basic Financial Statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30 , 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$875,000	\$338,316	\$649,033	\$310,717
Interest	12,000	7,000	7,271	271
Tuition, Fees, and Contract Services	912,500	1,898,080	1,589,735	(308,345)
Miscellaneous	293,650	106,550	125,442	18,892
Total Revenues	<u>2,093,150</u>	<u>2,349,946</u>	<u>2,371,481</u>	<u>21,535</u>
Expenditures:				
Current:				
Instruction:				
Regular	108,409	138,499	103,840	34,659
Special	462,954	480,904	430,269	50,635
Other	58	58	58	
Support Services:				
Pupils	727,162	725,937	671,764	54,173
Instructional Staff	261,037	288,603	242,507	46,096
Board of Education	21,460	21,960	18,225	3,735
Administration	432,527	476,758	420,910	55,848
Fiscal	211,920	217,409	211,045	6,364
Operation and Maintenance of Plant	20,596	20,596	15,758	4,838
Central	13,440	20,440	19,901	539
Operation of Non-Instructional Services	360	360	285	75
Extracurricular	2,600	2,600	1,636	964
Total Expenditures	<u>2,262,523</u>	<u>2,394,124</u>	<u>2,136,198</u>	<u>257,926</u>
Revenues Over/(Under) Expenditures	<u>(169,373)</u>	<u>(44,178)</u>	<u>235,283</u>	<u>279,461</u>
Other Financing Sources (Uses):				
Refund of Prior Year Expenditures			574	574
Advances In		125,000	125,000	
Advances Out		(60,000)	(60,000)	
Total Other Financing Sources (Uses)		<u>65,000</u>	<u>65,574</u>	<u>574</u>
Net Change in Fund Balance	(169,373)	20,822	300,857	280,035
Fund Balance at Beginning of Year	387,480	387,480	387,480	
Prior Year Encumbrances Appropriated	35,723	35,723	35,723	
Fund Balance at End of Year	<u>\$253,830</u>	<u>\$444,025</u>	<u>\$724,060</u>	<u>\$280,035</u>

See Accompanying Notes to the Basic Financial Statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
IDEA FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Customer Services	\$103,488	\$467,274	\$360,745	(\$106,529)
Expenditures:				
Current:				
Instruction:				
Regular	31	531	531	
Special	45,885	409,171	339,154	70,017
Support Services:				
Pupils	6,886	6,886	6,886	
Administration	4,149	4,149	4,139	10
Total Expenditures	56,951	420,737	350,710	70,027
Revenues Over/(Under) Expenditures	46,537	46,537	10,035	(36,502)
Other Financing (Uses):				
Advances Out		(52,000)	(52,000)	
Net Change in Fund Balance	46,537	(5,463)	(41,965)	(36,502)
Fund Balance at Beginning of Year	1,294	1,294	1,294	
Prior Year Encumbrances Appropriated	2,596	2,596	2,596	
Fund Balance at End of Year	<u>\$50,427</u>	<u>(\$1,573)</u>	<u>(\$38,075)</u>	<u>(\$36,502)</u>

See Accompanying Notes to the Basic Financial Statements.

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	<u>\$0</u>
Liabilities:	
Accounts Payable	1,300
Accrued Wages and Benefits Payable	29,602
Intergovernmental Payable	3,898
Due to Governmental General Fund	12,789
Undistributed Monies	<u>(47,589)</u>
Total Liabilities	<u>\$0</u>

See Accompanying Notes to the Basic Financial Statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

1. ENTITY DESCRIPTION

The Hardin County Educational Service Center (the "Center") is located in Kenton, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Hardin-Northern, Ridgemont, Riverdale, and Upper Scioto Valley Local School Districts, Ada Exempted Village School District, and Kenton City School District. The 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 Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental type activities. The Center does not have any business-type funds. 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.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 17.

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 Plan, and the Schools of Ohio Risk Sharing Authority. Information about these organizations is presented in Note 18.

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 Regional Professional Development Committee (RPDC), Teachmaster, and the Ohio Resource Center for Low Incidence Severe Handicap (ORLISH) grants awarded to the SERRC. 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.

B. Basis of Presentation

1. Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements include only governmental-type activities.

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

During the year, the Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Center at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

C. Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid 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. The various funds of the Center are classified into two categories: governmental and fiduciary.

1. Governmental Funds

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General Fund and the Individuals with Disabilities Education Act (IDEA) Fund are the Center's only major funds:

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

IDEA Fund - This fund is used to account for federal grant receipts and expenditures on-behalf of local public school districts within the County.

The other governmental funds of the Center account for grants and other resources, whose uses are restricted to a particular purpose.

Fiduciary Funds - Fiduciary fund reporting focuses on net assets and changes in net assets. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

D. Measurement Focus

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. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

2. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that 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.

Non-exchange 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 in the fiscal year in which all eligibility requirements have been satisfied. 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. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: tuition, grants, and student fees.

3. Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are meant are recorded as deferred revenue. On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

4. Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Educational Service Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the Educational Service Center's Board approves a budget for all funds on or before the start of the new fiscal year. Included in the budget are the estimated resources and appropriations for all funds. The Center amends the budget through out the fiscal year as required. During the June meeting (near the end of June), the Board approves the final budget to closely coincide with actual expenditures.

F. Cash and Investments

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

During fiscal year 2004, investments were limited to STAR Ohio. Except for investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, investments are reported at fair value, which is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase is reported at cost or amortized cost.

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. 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, 2004.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2004 amounted to \$7,271 which includes \$849 assigned from other Center Funds.

For presentation on the financial statements, 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 Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed. The Center did not have this type of asset at year-end.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The Center does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful life of the related capital assets. Depreciation is computed on furniture and equipment using the straight-line method over the estimated useful life of five years.

I. Compensated Absences

Compensated absences of the Center consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the Center and the employee.

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen (15) years of service were considered expected to become eligible to retire in accordance with GASB 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they are due for payment during the current year.

K. Net Assets

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

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

L. Fund Balance Reserves

The Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances in the governmental funds.

M. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities are eliminated on the statement of net assets.

N. 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 may differ from those estimates.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

For fiscal year 2004, the Center has implemented GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37, "Basic Financial Statements for State and Local Governments: Omnibus"; GASB No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2003, there was no effect on fund balance as a result of implementing GASB 37 and 38.

GASB 34 creates new basic financial statements for reporting on the Center's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Fund Balance

The restatements of GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and non-major funds of the Center as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>IDEA</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2003	\$525,581	\$(56,859)	\$12,105	\$480,827
Interpretation 6 Adjustment:				
Compensated Absences Payable	<u>10,509</u>	<u>3,445</u>	-	<u>13,954</u>
Adjusted Fund Balance	<u>\$536,090</u>	<u>\$(53,414)</u>	<u>\$12,105</u>	<u>\$494,781</u>
GASB 34 Adjustments:				
Capital Assets				106,345
Long-Term Liabilities				(113,140)
Long-Term (Deferred) Assets				<u>185,495</u>
Governmental Activities Net Assets, June 30, 2003				<u>\$673,481</u>

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

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 Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for each major governmental fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

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

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund and the IDEA Fund:

Net Change In Fund Balance		
	General	IDEA
Budget Basis	\$300,857	\$(41,965)
Adjustments:		
Revenue Accruals:		
Accrued FY2003, Received in Cash FY2004	(236,149)	(77,464)
Accrued FY2004, Not Yet Received in Cash	(85,248)	106,082
Expenditure Accruals:		
Accrued FY2003, Paid in Cash FY2004	188,262	82,768
Accrued FY2004, Not Yet Paid in Cash	(190,826)	(67,815)
Encumbrances	51,352	157
Other Financial Sources/Uses:		
Advances (Net)	(65,000)	52,000
Refunds	(574)	-
GAAP Basis	\$(37,326)	\$53,763

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS

A. Deposits:

Statutes require the classification of monies held by the Center into three categories:

Active Deposits: those monies required to be kept in a "cash" or "near-cash" status for immediate use by the Center. Such monies must by law be maintained either as cash in the Center treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

Inactive Deposits: those monies not required for use within the current two-year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits: 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), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Interim monies to be invested or deposited 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 agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (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 mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool (STAR Ohio);

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

5. DEPOSITS AND INVESTMENTS (Continued)

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of 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.

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

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

Deposits - At fiscal year end, the carrying amount of Center's deposits was \$229,735 and the bank balance was \$313,278. Of the bank balance, \$100,067 was covered by federal depository insurance.

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 Center or its agent in Center's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in 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.

	Carrying Value	Fair Value
Not Subject to Categorization:		
STAR Ohio	\$ 516,905	\$516,905

Reconciliation between the classifications of pooled cash and cash equivalents and investments on the Combined Balance Sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$746,740	
Cash on Hand	(100)	
STAROHIO	(516,905)	\$516,905
GASB Statement 3	\$229,735	\$516,905

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

6. STATE FUNDING

The Center is funded by the State Department of Education from State resources and the school districts to which the Center provides services. The School District's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50 for Kenton City and Ada Exempted Village School Districts and \$20.56 for the other four local school districts. This amount is deducted by the State Department of Education from each 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 can be increased. The portion that is in excess of the original funding calculation is shared by all of the 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, 2004, consisted of accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

<u>Receivables</u>	<u>Amount</u>
Governmental Type Activities:	
Intergovernmental:	
IDEA Fund	\$106,082
Other Governmental Funds	20,174
Total Intergovernmental Receivables	<u>126,256</u>
Contract Services:	
General	<u>135,150</u>
Total Governmental Type Activities	<u><u>\$261,406</u></u>

8. DUE FROM FIDUCIARY FUNDS/ DUE TO GOVERNMENTAL ACTIVITIES

The Center is the Fiscal Agent for the Special Education Regional Resource Center (SERRC). At June 30, 2004, the SERRC had a negative cash fund balance of \$12,789. As a result, the Center has provided cash flow from their general fund to finance the SERRC federal grant activities. The Statement of Net Assets for Governmental Activities and the Balance Sheet for Governmental Funds both reflect the receivable from the Fiduciary funds and the Statement of Fiduciary Net Assets reflects this liability.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

9. INTERFUND RECEIVABLE AND PAYABLE – GOVERNMENTAL ACTIVITIES

At June 30, 2004, the Individuals with Disabilities Education Act (IDEA) fund, the major Special Revenue Fund, had a negative cash fund balance of \$37,918. The General Fund provided cash flow resources until the receipt of grant monies. As a result, the Balance Sheet for Governmental Funds reflects both the receivable in the General Fund from the IDEA Fund and the liability in the IDEA Fund.

10. CAPITAL ASSETS

A summary in Capital Assets during fiscal year 2004 follows:

	<u>Balance 6/30/2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2004</u>
Governmental Activities				
Furniture and Equipment	\$407,469	\$11,854	\$0	\$419,323
Totals at Historical Cost	<u>407,469</u>	<u>11,854</u>	<u>-</u>	<u>419,323</u>
Less Accumulated Depreciation:				
Furniture and Equipment	301,124	47,729	-	348,853
Total Accumulated Depreciation	<u>301,124</u>	<u>47,729</u>	<u>-</u>	<u>348,853</u>
Governmental Activities				
Capital Assets, Net	<u>\$106,345</u>	<u>(\$35,875)</u>	<u>\$0</u>	<u>\$70,470</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$6,030
Support Service:	
Administration	<u>41,699</u>
Total Depreciation Expense	<u>\$47,729</u>

The estimated useful life of five years is used on furniture and equipment to compute depreciation.

11. 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 2004, the Center joined the Schools of Ohio Risk Sharing Authority (SORSA) for general liability insurance with a \$3,000,000 single occurrence limit and a \$5,000,000 annual aggregate. Property is also protected by SORSA with a building and business personal property limit of \$207,699. Crime coverage has a limit of \$50,000. 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 the prior fiscal year.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. 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 43215-3476.

For the fiscal year ended June 30, 2004, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute an actuarially determined rate. The rate for fiscal year 2004 was 14 percent of annual covered payroll; 9.09 percent was the portion used to fund pension obligations. For fiscal year 2003, 8.17 percent of annual covered salary 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 ending June 30, 2004, 2003, and 2002 were \$57,930, \$50,494, and \$50,612 respectively; 92.5 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002. The unpaid contribution for fiscal year 2004 is \$4,356.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. Chapter 3307 of the Ohio Revised Code establishes benefits. 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 the DCP.

In the CP, member contributions are invested by the member and the 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 balances from the existing DBP into the DCP or the CP. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

12. DEFINED BENEFIT PENSION PLANS (Continued)

A DBP or CP member with five or more years credited service that 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, 2004, plan members were required to contribute 10.0 percent of their annual covered salary and the Center 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 required contribution for pension obligations for the fiscal years ended June 30, 2004, 2003, and 2002 were \$196,946, \$192,244, and \$96,120, respectively; 78.9 percent has been contributed for fiscal year 2004 and 100 percent has been contributed for fiscal years 2003 and 2002. The unpaid contribution for fiscal year end 2004 is \$41,568.

13. 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 classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and 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 statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year June 30, 2004, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Center, this amount equaled \$11,800 for the fiscal year ended June 30, 2004.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.1 billion at June 30, 2004. For the fiscal year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000, and STRS had 111,853 eligible benefit recipients.

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

For this fiscal year ending June 30, 2004, employer contributions to fund health care benefits were 4.91 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. The minimum pay was established at \$24,500 for fiscal year 2004 and \$14,500 for fiscal year 2003. For the Center, the amount to fund health care benefits, including surcharge, equaled \$64,016 for the fiscal year ended June 30, 2004.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

13. POSTEMPLOYMENT BENEFITS (Continued)

The surcharge, 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 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004, were \$223,443,805, and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

14. EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Health Care Benefits

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

15. CAPITAL LEASES

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

Capital assets consisting of equipment have been capitalized in the government wide basic financial statements 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 and is presented as a component of long-term liabilities on the statement of net assets. Principal payments in fiscal year 2004 totaled \$13,807 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, 2004:

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

15. CAPITAL LEASES (Continued)

<u>Fiscal Year Ending June 30</u>	<u>Equipment</u>
2005	\$16,740
2006	11,455
2007	<u>3,200</u>
Total future minimum lease payments	31,395
Less amount representing interest	<u>(2,757)</u>
Present value of future minimum lease payment	<u><u>\$28,638</u></u>

16. LONG-TERM LIABILITIES

The changes in the Center's long-term obligations during the fiscal year consist of the following:

	<u>Restated Balance 06/30/03</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 06/30/04</u>	<u>Amounts Due in One Year</u>
Governmental Activities					
Compensated absences	\$70,695	\$9,600		\$80,295	\$30,577
Capital lease	42,445		(13,807)	<u>28,638</u>	<u>14,863</u>
Total governmental activities long-term liabilities	<u>\$113,140</u>	<u>\$9,600</u>	<u>(\$13,807)</u>	<u>\$108,933</u>	<u>\$45,440</u>

17. JOINTLY GOVERNED ORGANIZATIONS

A. Western Ohio Computer Organization (WOCO)

The Center is a participant in the Western Ohio Computer Organization (WOCO), which is a computer consortium. WOCO is an association of educational entities within the boundaries of Auglaize, Champaign, Hardin, Logan, Miami and Shelby counties. WOCO 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. This organization is governed by a board of directors consisting of 14 members: the superintendent of the fiscal agent Shelby County Educational Service Center, two superintendents from each county that is represented, one treasurer representative from the school districts, student services representative from the school districts, and a non-voting independent district representative. The degree of control exercised by any participating school district is limited to its representation on the board. Financial information can be obtained from Sonny Ivey, who serves as director, at 129 East Court Street, Sidney, Ohio 45365.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

17. JOINTLY GOVERNED ORGANIZATIONS (Continued)

B. Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School ("JVS") is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS is operated under the direction of a Board consisting of one representative from each of the eleven participating school districts' elected boards. The Board possesses its own budgeting and taxing authority. The degree of control exercised by the School District is limited to its representation on the Board. Financial information can be obtained from 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 jointly governed organization, formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The board consists 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 governs the SERRC. 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.

18. INSURANCE POOLS

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

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (Trust) is a public entity shared risk pool consisting of six school districts, the Hardin County Educational Service Center, and the Ada Public Library. The Trust is organized as a Voluntary Employee Benefit Association under Section 501 (c)(9) of the Internal Revenue Code and provides medical, dental, vision, and life insurance benefits to the employees of the participants. Each participant's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

Each participant 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, 9525 T.R. 50, Dola, Ohio 45835.

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

The Center participates 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 cost of administering the program.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

18. INSURANCE POOLS (Continued)

C. Schools of Ohio Risk Sharing Authority

The Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance pool created and administered under the authority of Ohio Revised Code 2744. The SORSA 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.

19. 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 Center currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

20. CONTINGENCIES

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2004.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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 03P	\$103,488	\$55,297
	84.027	6B-SF 04	257,204	295,173
Total Special Education Grants to States			<u>360,692</u>	<u>350,470</u>
Special Education Preschool Grants	84.173	PG-S1-03P	12,582	1,740
	84.173	PG-S1-04	25,339	24,583
Total Special Education Preschool Grants			<u>37,921</u>	<u>26,323</u>
Total Special Education Cluster			398,613	376,793
UNITED STATES DEPARTMENT OF HUMAN SERVICES				
(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)				
Community Alternative Funding (Medicaid Title XIX)				
	93.778		21,818	21,818
	93.778		74,219	74,219
Total Community Alternative Funding			<u>96,037</u>	<u>96,037</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR EDUCATIONAL SERVICE CENTER			<u>494,650</u>	<u>472,830</u>
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	\$21,875	\$26,122
	84.027	6B-II 03P	19,482	58,482
	84.027	6B-SE 03P		3,895
	84.027	6B-SI 01P	(4,713)	
	84.027	6B-SI 03P	224,803	265,623
	84.027	6B-SI 04P	532,076	662,435
Total Special Education Grants to States			<u>793,523</u>	<u>1,016,557</u>
Special Education Preschool Grants	84.173	PG-S3-01P	(15,780)	
Regional Autism Initiative	84.158	47480		<u>1,139</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR SERRC			<u>777,743</u>	<u>1,017,696</u>
GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE BOTH ESC AND SERRC			<u>\$1,272,393</u>	<u>\$1,490,526</u>

See accompanying Notes to the Schedule of Federal Awards Expenditures

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

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:

<u>District</u>	FY 04 Award Amount IDEA Part B	FY 04 Award Amount IDEA Preschool
Hardin Northern Local School District	\$ 57,801	\$2,786
Ridgemont Local School District	77,129	6,335
Riverdale Local School District	123,814	2,016
Upper Scioto Valley Local School District	104,541	4,876
Kenton City School District		10,723
Ada Exempted Village School District		2,907
Total Grant	\$363,285	\$29,643

NOTE E – NEGATIVE REVENUES

The Center returned funding to the Ohio Department of Education on behalf of the SERRC in the amounts of \$15,780 for the Special Education Preschool Grants and \$4,713 for the Special Education Grants to States for expenditures reported in the final expenditure report which were outside the period of availability for the 2001 grant programs.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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 governmental activities, each major fund, and the remaining fund information of the Educational Service Center, Hardin County, (the "Center"), as of and for the fiscal year ended June 30, 2004, which collectively comprise the Center's basic financial statements and have issued our report thereon dated May 11, 2005, wherein we noted the District implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Center's management dated May 11, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Center's management dated May 11, 2005, we reported other matters related to noncompliance we deemed immaterial.

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Educational Service Center
Hardin County
Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other
Matters Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 11, 2005



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 apply to its major federal program for the fiscal year ended June 30, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal program. The Center's management is responsible for complying with the requirements of laws, regulations, contracts and grants applicable to its major federal program. Our responsibility is to express an opinion on 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Educational Service Center, Hardin County complied, in all material respects, with the requirements referred to above that apply to its major federal program for the fiscal year ended June 30, 2004. In a separate letter to the Center's management dated May 11, 2005, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The Center's management 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 directly and materially affect a major federal program 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.

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**Internal Control Over Compliance
(Continued)**

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted matters involving the internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated May 11, 2005.

We intend this report solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities. It is not intended for anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 11, 2005

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 & .505
JUNE 30, 2004**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under ' .510?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA # 84.027: Grants to States CFDA # 84.173: Pre-School Grants
(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**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
AND QUESTIONED COSTS
JUNE 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer Valid</u> ; <i>Explain:</i>
2003-001	ORC Sec. 117.28 - Finding for Recovery – Repaid Under Audit	Yes	
2003-002	Supporting Documentation and Approval for Activity Between Funds	Yes	
2003-003	Support for Excess Cost Calculations	Yes	
2003-004	<p>34 CFR Section 80.23 (b) Period of Availability and Questioned Costs</p> <p>31 CFR Part 205 Cash Management</p> <p>Ohio Department of Education (ODE) Final Expenditure Report (FER) instruction #1, procedure #3 and Instruction #4 Reporting Expenditures and Final Expenditure Reports and corrections</p> <p>31 CFR 205 Cash Management and Reporting</p>	<p>No</p> <p>Yes</p> <p>No</p> <p>Yes</p>	<p>Management Letter Comment</p> <p>Partially corrected and partially repeated as a Management Letter Comment</p>



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HARDIN COUNTY EDUCATIONAL SERVICE CENTER

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 28, 2005**