



**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Hardin County Educational Service Center
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 Hardin County Educational Service Center (the "Center") as of and for the fiscal year ended June 30, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 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, 2005, and the respective changes in financial position and the respective budgetary comparisons for the General and IDEA funds for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2006, 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.

Management 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 provides additional information and is required by 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, this 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

April 7, 2006

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED**

The discussion and analysis of Hardin County Educational Service Center's (the "Center") financial performance provides an overall view of the Center's financial activities for the fiscal year ended June 30, 2005. 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 2005 are as follows:

- Net assets of governmental activities increased \$78,692.
- General revenues accounted for \$722,075 in revenue or 23.2% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,391,192 or 77.8% of total revenues of \$3,113,267.
- The Center had \$3,034,575 in expenses related to government activities; \$2,391,192 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$722,075 were adequate to provide for these programs.

Using the Basic Financial Statements

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 by far 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 2005?" 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 reflects 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 tell 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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

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 you 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.

Reporting the Center's Fiduciary Responsibilities

The Center also acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in separate Statements of Fiduciary Net Assets. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

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 2005. Comparisons are made to 2004.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

**Table 1
Net Assets**

	Governmental Activities	Governmental Activities
	2005	2004
Assets:		
Current and Other Assets	\$1,321,277	\$1,020,935
Capital Assets, Net	34,755	70,470
Total Assets	<u>1,356,032</u>	<u>1,091,045</u>
Liabilities:		
Current and Other Liabilities	647,261	436,143
Long-Term Liabilities	83,750	108,933
Total Liabilities	<u>731,011</u>	<u>545,076</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	20,980	41,832
Restricted	11,124	
Unrestricted	<u>592,917</u>	<u>504,497</u>
Total Net Assets	<u>\$625,021</u>	<u>\$546,329</u>

Total assets increased primarily as a result in the increase in Equity in Pooled Cash and Cash Equivalents which increased by \$298,958.

Table 2 shows the changes in net assets for fiscal year 2005 and 2004.

Governmental Activities

**Table 2
Change in Net Assets**

	2005	2004
Revenues		
Program Revenues:		
Charges for Services and Sales	\$1,495,571	\$1,293,141
Operating Grants, Contributions, and Interest	895,621	577,084
General Revenues:		
Grants and Entitlements	631,488	649,033
Investment Earnings	13,759	7,271
Miscellaneous	<u>76,828</u>	<u>129,461</u>
Total Revenues	<u>3,113,267</u>	<u>2,655,990</u>
Expenses		
Instruction:		
Regular	145,033	178,409
Special	506,902	473,020
Vocational		316
Other		58
		(Continued)

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

	2005	2004
Expenses (Continued)		
Support Services:		
Pupils	666,079	659,245
Instructional Staff	214,245	246,264
Board of Education	7,429	18,573
Administration	445,748	452,724
Fiscal	218,710	210,743
Operation and Maintenance of Plant	16,604	19,566
Central	15,623	15,476
Non-Instructional Services	125	285
Extracurricular Activities	1,841	1,636
Intergovernmental	794,359	503,894
Interest and Fiscal Charges	1,877	2,933
Total Expenses	3,034,575	2,783,142
Change in Net Assets	\$78,692	(\$127,152)

The Statement of Activities, which is presented on page 8, 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 restricted grants. Net assets of the Center increased by \$78,692. The increase to net assets is primarily the result of additional federal grant money and contract services with participating school districts. Total governmental expense of \$3,034,575, were offset by program revenues of \$2,391,192 and general revenues of \$722,075. Program revenues supported approximately 79% of the governmental expenses. Charges for services in the amount of \$1,495,571 accounted for approximately 49% of the revenue, which financed operations.

Support services, intergovernmental, and other non-instruction expenditures comprised approximately 78 percent of governmental program expenses, as the purpose of the center is to provide services to the county schools. Instruction expense was approximately 22 percent.

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 \$3,065,868 and expenditures of \$3,087,580. The net change in General fund balance for the year was a decrease of (\$18,421) which is an improvement over the prior year decrease of (\$37,326). This improvement is primarily the result of an increase in Tuition, Fees, and Contract Services revenue.

General Fund Budgeting Highlights

The Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. During the course of fiscal year 2005 the Center amended the budget numerous times which is considered routine.

For the general fund, the final budget basis estimated revenue was \$2,230,326, which was above the original budget estimate of \$2,000,050.

The original appropriations of \$2,360,772 were increased to \$2,395,295.

The Center's ending unobligated cash balance was \$272,289 above the final budgeted amount.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the Center had \$34,755 (net of \$371,610 of accumulated depreciation) invested in furniture and equipment in governmental activities. Table 3 shows fiscal 2005 balances compared to 2004:

Table 3

Capital Assets as of June 30,
(Net of Depreciation)

	Governmental Type Activities	
	2005	2004
Furniture and Equipment	\$34,755	\$70,470
Total Capital Assets	\$34,755	\$70,470

The Center continues to utilize existing assets with minimal expenditures for replacements.

Debt

At June 30, 2005, 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	
	2005	2004
Capital Lease Payable	\$13,775	\$28,638
Total	\$13,775	\$28,638

For the Future

The Center did better this fiscal year financially. As the preceding information shows, the Center heavily depends on its contract service payments. The future is not without challenges. Thus 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, and 1211 West Lima Street, Kenton, Ohio 43326. Or e-mail at hartk@hardinesc.org.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Governmental Activities</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$968,686
Accounts Receivable	40,321
Intergovernmental Receivable	129,721
Contract Services Receivable	182,549
Depreciable Capital Assets, Net	<u>34,755</u>
Total Assets	<u>1,356,032</u>
Liabilities:	
Accounts Payable	50,917
Contract Services Payable	154,165
Accrued Wages and Benefits Payable	231,626
Intergovernmental Payable	210,553
Long-Term Liabilities:	
Due Within One Year	51,663
Due in More Than One Year	<u>32,087</u>
Total Liabilities	<u>731,011</u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	20,980
Restricted for Other Purposes	11,124
Unrestricted	<u>592,917</u>
Total Net Assets	<u><u>\$625,021</u></u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	
Governmental Activities:			
Instruction:			
Regular	\$145,033	\$40,938	\$76,723
Special	506,902	302,088	7,167
Support Services:			
Pupils	666,079	481,741	(184,338)
Instructional Staff	214,245	173,675	3,000
Board of Education	7,429	14,389	2,963
Administration	445,748	296,942	9,923
Fiscal	218,710	159,447	(148,806)
Operation and Maintenance of Plant	16,604	13,425	6,202
Central	15,623	11,469	1,824
Non-Instructional Services	125	93	(1,355)
Extracurricular Activities	1,841	1,364	(4,154)
Intergovernmental	794,359		(32)
Interest and Fiscal Charges	1,877		(477)
	<u>1,877</u>		<u>797,742</u>
Total Governmental Activities	<u>\$3,034,575</u>	<u>\$1,495,571</u>	<u>\$895,621</u>
General Revenues:			
Grants and Entitlements not Restricted to Specific Programs			631,488
Interest			13,759
Miscellaneous			76,828
Total General Revenues			<u>722,075</u>
Change in Net Assets			78,692
Net Assets Beginning of Year			<u>546,329</u>
Net Assets End of Year			<u>\$625,021</u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	<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	\$962,964	\$1,020	\$4,702	\$968,686
Accounts Receivable	40,321			40,321
Intergovernmental Receivable		90,678	39,043	129,721
Contract Services Receivable	182,549			182,549
Total Assets	<u>1,185,834</u>	<u>91,698</u>	<u>43,745</u>	<u>1,321,277</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts Payable	33,918	289	16,710	50,917
Contract Services Payable	154,165			154,165
Accrued Wages and Benefits Payable	138,137	71,709	21,780	231,626
Intergovernmental Payable	196,722	11,368	2,463	210,553
Deferred Revenue	182,549			182,549
Total Liabilities	<u>705,491</u>	<u>83,366</u>	<u>40,953</u>	<u>829,810</u>
Fund Balances:				
Reserved for Encumbrances	25,360	978	2,523	28,861
Unreserved, Reported in:				
General Fund	454,983			454,983
Special Revenue Funds		7,354	269	7,623
Total Fund Balances	<u>480,343</u>	<u>8,332</u>	<u>2,792</u>	<u>491,467</u>
Total Liabilities and Fund Balances	<u>\$1,185,834</u>	<u>\$91,698</u>	<u>\$43,745</u>	<u>\$1,321,277</u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005**

Total Governmental Fund Balances		\$491,467
<i>Amounts reported for governmental activities on the statement of net assets are different because of the following:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.		34,755
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		182,549
Some liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Due within One year - Capital Leases Payable	(\$10,660)	
Due within One year - Compensated Absences Payable	(41,003)	
Due in More than One Year - Capital Leases Payable	(3,115)	
Due in More than One Year - Compensated Absences Payable	<u>(28,972)</u>	
		<u>(83,750)</u>
Net Assets of Governmental Activities		<u><u>\$625,021</u></u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30 , 2005**

	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Intergovernmental	\$638,655	\$609,923	\$278,532	\$1,527,110
Interest	13,759			13,759
Tuition, Fees and Contract Services	1,448,171			1,448,171
Miscellaneous	75,024		1,804	76,828
Total Revenues	<u>2,175,609</u>	<u>609,923</u>	<u>280,336</u>	<u>3,065,868</u>
Expenditures:				
Current:				
Instruction:				
Regular	73,033		76,612	149,645
Special	533,252			533,252
Support Services:				
Pupils	660,131		3,000	663,131
Instructional Staff	237,616		4,117	241,733
Board of Education	19,718			19,718
Administration	404,200		9,940	414,140
Fiscal	219,040			219,040
Operation and Maintenance of Plant	18,370		1,824	20,194
Central	15,729			15,729
Non-Instructional Services	125			125
Extracurricular Activities	1,841			1,841
Intergovernmental		607,680	184,612	792,292
Debt Service:				
Principal Retirement	14,863			14,863
Interest and Fiscal Charges	1,877			1,877
Total Expenditures	<u>2,199,795</u>	<u>607,680</u>	<u>280,105</u>	<u>3,087,580</u>
Revenues Over (Under) Expenditures	(24,186)	2,243	231	(21,712)
Other Financing Sources (Uses):				
Transfers In	12,203	5,740	698	18,641
Transfers Out	(6,438)		(12,203)	(18,641)
Total Other Sources (Uses)	<u>5,765</u>	<u>5,740</u>	<u>(11,505)</u>	<u>0</u>
Total of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(18,421)	7,983	(11,274)	(21,712)
Fund Balances at Beginning of Year	498,764	349	14,066	513,179
Fund Balances at End of Year	<u>\$480,343</u>	<u>\$8,332</u>	<u>\$2,792</u>	<u>\$491,467</u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY 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, 2005**

Net Change in Fund Balances - Total Governmental Funds (\$21,712)

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	\$12,758	
Depreciation	<u>(48,473)</u>	(35,715)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		47,399
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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		14,863

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>10,320</u>	<u>73,857</u>

Change in Net Assets of Governmental Activities		<u><u>\$78,692</u></u>
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See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY 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 , 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$218,050	\$308,950	\$631,488	\$322,538
Interest	7,000	7,000	13,758	6,758
Tuition, Fees, and Contract Services	1,700,000	1,799,500	1,380,393	(419,107)
Miscellaneous	75,000	114,876	175,535	60,659
Total Revenues	<u>2,000,050</u>	<u>2,230,326</u>	<u>2,201,174</u>	<u>(29,152)</u>
Expenditures:				
Current:				
Instruction:				
Regular	49,304	62,132	31,909	30,223
Special	506,354	494,485	408,734	85,751
Support Services:				
Pupils	724,790	724,590	668,285	56,305
Instructional Staff	320,787	269,766	241,362	28,404
Board of Education	25,048	26,648	19,208	7,440
Administration	452,694	519,679	434,543	85,136
Fiscal	221,231	234,431	223,139	11,292
Operation and Maintenance of Plant	21,600	21,600	20,287	1,313
Central	28,701	31,701	17,686	14,015
Operation of Non-Instructional Services	125	125	125	
Extracurricular	3,700	3,700	1,841	1,859
Total Expenditures	<u>2,354,334</u>	<u>2,388,857</u>	<u>2,067,119</u>	<u>321,738</u>
Revenues Over/(Under) Expenditures	<u>(354,284)</u>	<u>(158,531)</u>	<u>134,055</u>	<u>292,586</u>
Other Financing Sources (Uses):				
Advances In		32,500		(32,500)
Transfers In			12,203	12,203
Transfers Out	(6,438)	(6,438)	(6,438)	
Total Other Financing Sources (Uses)	<u>(6,438)</u>	<u>26,062</u>	<u>5,765</u>	<u>(20,297)</u>
Net Change in Fund Balance	(360,722)	(132,469)	139,820	272,289
Fund Balance at Beginning of Year	724,060	724,060	724,060	
Prior Year Encumbrances Appropriated	51,356	51,356	51,356	
Fund Balance at End of Year	<u><u>\$414,694</u></u>	<u><u>\$642,947</u></u>	<u><u>\$915,236</u></u>	<u><u>\$272,289</u></u>

See Accompanying Notes to the Basic Financial Statements.

**HARDIN COUNTY 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, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$716,005	\$716,005	\$625,327	(\$90,678)
Expenditures:				
Current:				
Instruction:				
Special	650,214	650,215	551,332	98,883
Support Services:				
Instructional Staff	15,437	15,539	14,944	595
Administration	14,455	14,455	21,131	(6,676)
Total Expenditures	680,106	680,209	587,407	92,802
Revenues Over Expenditures	35,899	35,796	37,920	2,124
Other Financing (Uses):				
Other Uses	(5,740)	(5,740)	(5,740)	
Transfer In	5,740	5,740	5,740	
Total Other Financing Sources (Uses)				
Net Change in Fund Balance	35,899	35,796	37,920	2,124
Fund Balance at Beginning of Year	(38,075)	(38,075)	(38,075)	
Prior Year Encumbrances Appropriated	156	156	156	
Fund Balance at End of Year	<u>(\$2,020)</u>	<u>(\$2,123)</u>	<u>\$1</u>	<u>\$2,124</u>

See Accompanying Notes to the Basic Financial Statements.

HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$77,012
Liabilities:	
Accounts Payable	207
Accrued Wages and Benefits Payable	36,049
Intergovernmental Payable	15,909
Undistributed Monies	24,847
Total Liabilities	\$77,012

See Accompanying Notes to the Basic Financial Statements

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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 provided they do not conflict with or contradict GASB pronouncements. 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-eight support staff employees and thirty certified teaching personnel that provide services to the local, city, and exempted village school districts.

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

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 pertains to general operations.

Component Units

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 16.

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 17.

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). 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.

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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 IDEA fund are 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 used for the Center's Special Education Grants to States federal grant program. This fund is used to account for federal grant receipts and expenditures spent on behalf of local public school districts in Hardin County.

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

2. 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.

E. 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives an 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 of 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, fees, and grants.

2. 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 met 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.

3. 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.

F. Budgetary Process

The Center, with the passing of House Bill 95, is no longer required to certify a budget to the State Department of Education. However, the 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. 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 2005, 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 2005. 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, 2005.

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 2005 amounted to \$13,759, which includes \$2,201 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.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005, 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.

I. 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

J. 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.

K. 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.

L. 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. 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.

N. Interfund Transactions

Transfers within governmental activities are eliminated on the government-wide financial statements. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

O. 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.

P. 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 2005.

Q. Pass-Through Grant Activity

The Educational Service Center is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When the Educational Service Center has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in a special revenue fund. For fiscal year 2005, these funds included the Special Education Grants to States and Special Education Preschool Grants.

3. CHANGE IN ACCOUNTING PRINCIPLE

For fiscal year 2005, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosure" and GASB Technical Bulletin 2004-02. GASB Statement No. 40 establishes and modifies the disclosure requirements related to investment risks. GASB Technical Bulletin 2004-02 states that modified accrual statements should essentially report pension contribution expenditures and liabilities on the full accrual basis. The implementation of this statement and bulletin did not result in any change to the Center's financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. ACCOUNTABILITY

At June 30, 2005, the Alternative Opportunity School Special Revenue Funds had a deficit fund balance in the amount of 8,192 resulting from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

5. 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 Balances - 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:

	General	IDEA
Net Change in Fund Balance:		
Budget Basis	\$139,820	\$ 37,920
Net Adjustments for Revenue Accruals	(25,565)	(15,404)
Net Adjustments for Expenditure Accruals	(180,405)	(21,540)
Other Uses		5,740
Encumbrances	47,729	1,267
GAAP Basis	(\$18,421)	\$ 7,983

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. DEPOSITS AND INVESTMENTS

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. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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;

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

6. 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.

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.

A. Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Center will not be able to recover deposits or collateral securities that are in the possession of an outside party. At fiscal year end, \$515,345 of the Center's bank balance of \$615,412 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the School District's name.

The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

B. Investments

As of June 30, 2005, the carrying value of funds on deposit with Star Ohio was \$527,550. STAR Ohio carries a rating of AAAM by Standard and Poor's.

7. 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 (ADM) of the school district (the total number of students enrolled) by \$6.50 for the City of Kenton and Ada Exempted Village School Districts. The ADM of the remaining school districts was multiplied by \$20.56 for the period July to December 2004 and \$6.50 for the period of January 2005 to June 30, 2005. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$37.

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. RECEIVABLES

Receivables at June 30, 2005, consisted of accounts, contract 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:

Receivables	Amount
Governmental Type Activities:	
Intergovernmental:	
IDEA Fund	\$90,678
Other Governmental Funds	39,043
Total Intergovernmental Receivables	129,721
Contract Services:	
General	182,549
Accounts:	
General	40,321
Total Governmental Type Activities	\$352,591

9. CAPITAL ASSETS

A summary in Capital Assets during fiscal year 2005 follows:

	Balance 6/30/2004	Additions	Deductions	Balance 6/30/2005
Governmental Activities				
Furniture and Equipment	\$419,323	\$12,758	(\$25,716)	\$406,365
Totals at Historical Cost	419,323	12,758	(25,716)	406,365
Less Accumulated Depreciation:				
Furniture and Equipment	348,853	48,473	25,716	371,610
Total Accumulated Deprecia	348,853	48,473	25,716	371,610
Governmental Activities				
Capital Assets, Net	\$70,470	(\$35,715)	(\$51,432)	\$34,755

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$11,490
Support Service:	
Administration	35,703
Central	1,280
Total Depreciation Expense	\$48,473

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. 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 2005, the Center contracted with Schools of Ohio Risk Sharing Authority (SORSA) for general liability insurance with a \$3,000,000 single occurrence limit and a \$3,000,000 aggregate. Property is also protected by SORSA with a building and business personal property 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 last year.

11. 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, 2005, 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 employer rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. For fiscal year 2004, 9.09 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Center's required contribution for pension obligations to SERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$62,395, \$57,930 and \$50,494 respectively; 90.7 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003. \$5,803 representing the unpaid pension contribution for the fiscal year 2005 is recorded as a liability within respective funds

B. State Teachers Retirement System

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

Eligible faculty of Ohio’ public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

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

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

11. DEFINED BENEFIT PENSION PLANS (Continued)

A Defined Benefit or Combined Plan member with five or more years' credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 2005, were 10% of covered payroll for members and 14% for employers, 13 percent was the portion used to fund pension obligations. The Center's required contribution for pension obligations for the fiscal years ended June 30, 2005, 2004, and 2003 were \$225,768, \$196,946, and \$192,244, respectively; 76.73 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$52,534 representing the unpaid contribution for the fiscal year 2005 is recorded as a liability within respective funds. Contributions for the DCP and CP for the fiscal year ended June 30, 2005, were \$47 made by the Center and \$223 made by plan members.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2005 Comprehensive Annual Financial Report will be available after January 1, 2006. Additional information or copies of STRS Ohio's 2005 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

12. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. For this fiscal year ending June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$25,400. For the School District, the amount to fund health care benefits, including surcharge, equaled \$30,299 for the fiscal year ended June 30, 2005. 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. POSTEMPLOYMENT BENEFITS (Continued)

Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

B. State Teachers Retirement System

STRS Ohio provides access to health care coverage to retirees who participated in the Defined Benefit or Combined Plans and their dependents. Coverage under the current plan includes hospitalization, physicians' fees prescription drugs and partial reimbursement of monthly Medicare Part B premiums. Pursuant to the Revised Code (R.C.) the State Teachers Retirement Board (the Board) has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients pay a portion of the health care cost in the form of a monthly premium.

The R.C. grants authority to STRS Ohio to provide health care coverage to eligible benefit recipients, spouses and dependents. By Ohio Law, health care benefits are not guaranteed and the cost of the coverage paid from STRS Ohio funds shall be included in the employer contribution rate, currently 14% of covered payroll.

The Retirement Board allocates employer contributions to the Health Care Stabilization Fund from which health care benefits are paid. For fiscal year June 30, 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$16,295 for the fiscal year ended June 30, 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 eligible benefit recipients.

13. 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. EMPLOYEE BENEFITS (Continued)

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.

14. 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 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 also recorded in the government wide financial statements. Principal payments in fiscal year 2005 totaled \$14,863 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, 2005:

<u>Fiscal Year Ending:</u>				
2006	\$10,660	\$795	\$11,455	
2007	3,115	85	3,200	
Total	<u>\$13,775</u>	<u>\$880</u>	<u>\$14,655</u>	

15. LONG-TERM LIABILITIES

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

	<u>Principal Outstanding 06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	<u>Principal Outstanding 06/30/05</u>	<u>Amounts Due In One Year</u>
Governmental Activities					
Compensated Absences	\$80,295	\$69,975	\$80,295	\$69,975	\$41,003
Capital Lease	<u>28,638</u>	<u>-</u>	<u>14,863</u>	<u>13,775</u>	<u>10,660</u>
Total Governmental Activities					
Long-Term Liabilities	<u>\$108,933</u>	<u>\$69,975</u>	<u>\$95,158</u>	<u>\$83,750</u>	<u>\$51,663</u>

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

16. 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 various public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, Shelby, and Miami Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions of member school districts. Each of the governments of these districts supports WOCO based upon a per pupil charge dependent on the software package utilized. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO, as the residual interest in net resources of the joint venture upon dissolution is not equivalent to an equity interest. WOCO is governed by a board of directors consisting of the superintendents of the member school districts and the degree of control is limited to the representation on the board. Financial information can be obtained from Sonny Ivey, who serves as Director, at 129 East Court Street, Sidney, Ohio 45365.

B. Ohio Hi-Point Joint Vocational School District

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

C. West Central Ohio Special Education Regional Resource Center

The West Central Ohio Special Education Regional Resource Center (SERRC) is a special education service center, which selects its own board, adopts its own budget and receives direct Federal and State grants for its operations. The jointly governed board organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. The 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.

17. 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 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.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

17. INSURANCE POOLS (Continued)

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

The Center participates in a group rating plan for worker's compensation as established under Section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Plan (GRP) was established through the Ohio School Boards Association (OSBA) as an insurance purchasing pool.

The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, 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 GRP. Each year, the participants pay an enrollment fee to the GRP to cover the costs of administering the program.

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 present 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.

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

19. INTERFUND TRANSFERS

During fiscal year 2005, the General Fund made transfers to other governmental funds, in the amount of \$6,438, to fund federal question costs from fiscal year 2003. In addition, the Special Revenue Outreach Fund transferred \$12,203 to the General Fund. The money represented the remaining balance from a fiscal year 2002 contract with the Hardin County Job and Family Services (JFS) which was not required to be refunded to the JFS.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

20. SUBSEQUENT EVENT

As of August 1, 2005 Hardin County Educational Service Center ceased providing Treasurer services to the Auglaize County Educational Service Center.

As of July 1, 2006, the Center will no longer be the fiscal agent for the West Central Ohio Special Education Regional Resource Center (SERRC). The Center will remain fiscal agent for any grants belonging to the SERRC that have not been finalized as of July 1, 2006.

21. 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2005.

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

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 <i>(Passed through Ohio Department of Education)</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	84.027	6B-SF-02P	(\$4,008)	
	84.027	6B-SF-03P	(1,732)	
	84.027	6B-SF 04	106,082	\$68,113
	84.027	6B-SF 05	469,245	468,825
	84.027	6B-SD 05	50,000	49,400
Total Special Education Grants to States (IDEA Part B)			<u>619,587</u>	<u>586,338</u>
Special Education Preschool Grants (IDEA Preschool)	84.173	PG-D7-04P	10,000	10,000
	84.173	PG-S1-02P	(117)	
	84.173	PG-S1-03P	(698)	
	84.173	PG-S1-04	4,305	5,061
	84.173	PG-S1-05	36,321	35,234
Total Special Education Preschool Grants (IDEA Preschool)			<u>49,811</u>	<u>50,295</u>
Total Special Education Cluster			669,398	636,633
U.S. DEPARTMENT OF HOMELAND SECURITY <i>(Passed through Ohio Emergency Management Agency)</i>				
Disaster Grants - Public Assistance	97.036	FEMA-OH-EM-3198	1,896	1,896
UNITED STATES DEPARTMENT OF HUMAN SERVICES <i>(Passed through Ohio Department of Mental Retardation and Developmental Disabilities)</i>				
Medical Assistance Program (Medicaid Title XIX Community Alternative Funding Systems (CAFS))				
	93.778	FY 97	28,570	28,570
	93.778		7,886	7,886
	93.778	FY 04	36,939	36,939
	93.778	FY 05	55,764	55,764
Total Community Alternative Funding Systems			<u>129,159</u>	<u>129,159</u>
State Children's Health Insurance Program (SCHIP)	93.767	FY 05	5,067	5,067
Total Medical Assistance Program			<u>134,226</u>	<u>134,226</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR EDUCATIONAL SERVICE CENTER			<u>805,520</u>	<u>772,755</u>
West Central Ohio Special Education Regional Resource Center (SERRC)				
UNITED STATES DEPARTMENT OF EDUCATION <i>(Passed through Ohio Department of Education)</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	84.027	6B-AA 03P	(4,578)	
	84.027	6B-AA 05	9,348	9,224
	84.027	6B-EC 05	42,259	64,928
	84.027	6B-SI 01P	(2,768)	
	84.027	6B-SI 04	332,661	202,302
	84.027	6B-SI 05	658,982	650,970
Total Special Education Grants to States (IDEA Part B)			<u>1,035,904</u>	<u>927,424</u>
Special Education Preschool Grants (IDEA Part B)	84.173	PG-S3-02P	(2,013)	
Total Special Education Cluster			1,033,891	927,424
Special Education - State Personnel Development	84.323	PG-ST-S1 05	26,480	35,522
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR SERRC			<u>1,060,371</u>	<u>962,946</u>
GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE BOTH ESC AND SERRC			<u>\$1,865,891</u>	<u>\$1,735,701</u>

The Notes to the Schedule of Federal Awards Expenditures is an Integral Part of This Statement.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2005**

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 Educational Service 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 Center received reimbursement type entitlements for which expenditures are realized when revenue is received. This entitlements are for the Medical Assistance Program (Medicaid Title XIX) also known as Community Alternative Funding (CAFS) and for State Children's Health Insurance Program (SCHIP).

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>	<u>FY 05 Award Amount IDEA Part B</u>	<u>FY 05 Award Amount IDEA Preschool</u>
Hardin Northern Local School District	\$ 90,622	\$3,844
Ridgemont Local School District	121,346	8,651
Riverdale Local School District	190,018	3,134
Upper Scioto Valley Local School District	157,938	7,042
Kenton City School District		16,150
Ada Exempted Village School District		<u>4,357</u>
Total Grant	<u>\$559,924</u>	<u>\$43,178</u>

NOTE E – NEGATIVE REVENUES

The negative revenues reported in the Schedule represent funding returned to the Ohio Department of Education for balances left in grant funds after the period of availability.



**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***

Hardin County Educational Service Center
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 aggregate remaining fund information of the Hardin County Educational Service Center (the "Center") as of and for the fiscal year ended June 30, 2005, which collectively comprise the Center's basic financial statements and have issued our report thereon dated April 7, 2006. 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 Government's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2005-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. We consider reportable condition 2005-001 listed above to be a material weakness. In a separate letter to the Center's management dated April 7, 2006, we reported other matters involving internal control over financial reporting which we did not deem reportable conditions.

Compliance and Other Matters

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 April 7, 2006, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Board of Education, 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

April 7, 2006



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

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

To the Board of Education:

Compliance

We have audited the compliance of the Hardin County Educational Service Center (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, 2005. 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 the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to 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 Center 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, 2005.

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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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.

We intend this report solely for the information and use of the audit committee, management, Board of Education, 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

April 7, 2006

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

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)?	Yes
(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 noncompliance 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: (Both ESC and SERRC) CFDA # 84.027: Special Education Grants to States (Idea Part B) CFDA # 84.173: Special Education Preschool Grants (Idea Preschool)
(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**

REPORTABLE CONDITION / MATERIAL WEAKNESS

Calculation of Excess Cost (Contract Services) Billings

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

- FY 04 amounts owed to the Districts were not paid by the ESC for a total payable still due of \$81,331
- FY 05 Special Education Grants to States authorized by the Individuals with Disabilities Education Act (IDEA) were credited back to the Districts at the FY 04 grant award amount of \$363,286 instead of the FY 05 amount of \$559,923, for total amounts undercredited of \$196,637.
- FY 05 Special Education Preschool Grants authorized by IDEA part B were credited back to the Districts at the FY 04 grant award amount of \$29,644 instead of the FY 05 amount of \$43,179, for total amounts undercredited of \$13,535.
- The School Employees Retirement System (SERS) surcharge for FY 05 total amount due was \$8,960, but the total of the amounts billed as excess costs of \$30,703 overstated the expenses by \$23,393.
- The Multiple Disability Program (MD) was undercharged \$44,025 for program support.
- The Speech Services Program was undercharged \$72,387 for program support.

The supporting documentation for the excess cost calculations should be reviewed to help assure that all computations are supported by actual expenditures, funding, reimbursements, and grant revenue credited to each program are based upon actual amounts for the current year of operation, and that all spreadsheets compute and are free of formula errors, and that at year-end each school district's account is finalized in a timely manner including billing for amounts due to the Center as well as the Center paying districts for amounts collected, funded or reimbursed in excess of that district's costs. The finalized account of each school district should be used to record the excess cost receivable and/or payable on the Center's financial statements. Monitoring procedures should be implemented by the Center's Board and/or Audit Committee to help assure the discrepancies with excess cost billings are corrected. As part of the monitoring process, the Center should consider forming a committee comprised of Treasurer's from participating school districts, to review excess cost calculations prior to approval of contracts with each school district.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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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
MAY 9, 2006**