



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

HARDIN COMMUNITY SCHOOL
HARDIN COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2017-2016
Fiscal Year Audited Under GAGAS: 2017-2016

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Dave Yost • Auditor of State

Board of Directors
Hardin Community School
333 East Center Street
Marion, Ohio 43302

We have reviewed the *Independent Auditor's Report* of the Hardin Community School, Hardin County, prepared by BHM CPA Group, Inc., for the audit period July 1, 2015 through June 30, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Hardin Community School is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 28, 2017

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Hardin Community School
Basic Financial Statements
For the Fiscal Year Ended June 30, 2017 and 2016
Table of Contents

<u>TITLE</u>	<u>PAGE</u>
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis – For the Fiscal Year Ended June 30, 2017	3
Basic Financial Statements – For the Fiscal Year Ended June 30, 2017:	
Statement of Net Position- Cash Basis	6
Statement of Revenues, Expenses and Changes in Net Position - Cash Basis.....	7
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2017	8
Management’s Discussion and Analysis – For the Fiscal Year Ended June 30, 2016	16
Basic Financial Statements – For the Fiscal Year Ended June 30, 2016:	
Statement of Net Position- Cash Basis	19
Statement of Revenues, Expenses and Changes in Net Position - Cash Basis.....	20
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016.....	21
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	29
Schedule of Findings.....	31
Schedule of Prior Audit Findings	32

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Independent Auditor's Report

Hardin Community School
Hardin Community
333 East Center Street
Marion, Ohio 43302

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of Hardin Community School, Hardin County, Ohio (the School), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the cash accounting basis Note 2 describes. This responsibility includes determining that the cash accounting basis is acceptable for the circumstances. Management is also responsible for designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the School's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the School's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin Community School, Hardin County, Ohio, as of June 30, 2017 and 2016, and the respective changes in cash financial position for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

Ohio Administrative Code § 117-2-03 (B) requires the School to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America. We draw attention to Note 2 of the financial statements, which describes the basis applied to these statements. The financial statements are prepared on the cash basis of accounting, which is a basis other than generally accepted accounting principles. We did not modify our opinion regarding this matter.

Other Matters

Other Information

We applied no procedures to Management's Discussion & Analysis, as listed in the table of contents. Accordingly, we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017, on our consideration of the School'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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

BHM CPA Group

BHM CPA Group
Piketon, Ohio
October 23, 2017

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The discussion and analysis of the Hardin Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2017. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2017 are as follows:

- In total, net cash position was \$566,140 at June 30, 2017.
- The School had operating revenues of \$318,742 and operating expenses of \$296,277 for fiscal year 2017.
- The School also received \$50,835 in non-operating revenue during fiscal year 2017.
- Total change in net cash position for fiscal year 2017 was an increase of \$83,300, from a beginning balance of \$482,840 to a balance of \$566,140.

Using these Cash Basis 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 School's financial activities. The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis provide information about the activities of the School.

Reporting the School's Financial Activities

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position - Cash Basis

These documents look at all financial transactions and ask the question, "How did the School do financially during 2017?" The statement of net position – cash basis statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

These two statements report the School's net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the School as a whole, the cash basis financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 6 and 7 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 8 - 15 of this report.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The table below provides a summary of the School's net cash position for fiscal years 2017 and 2016.

	Net Cash Position	
	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Current assets	\$ 566,140	\$ 482,840
Total assets	<u>566,140</u>	<u>482,840</u>
<u>Net Cash Position</u>		
Restricted	11,875	11,875
Unrestricted	<u>554,265</u>	<u>470,965</u>
Total net cash position	<u>\$ 566,140</u>	<u>\$ 482,840</u>

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the School increased \$83,300, which represents a 17.25% increase from net cash position at June 30, 2016. A portion of the School's net cash position, \$11,875, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$554,265 may be used for the School's ongoing operations.

The table below shows the changes in net position for fiscal year 2017 and 2016.

	<u>2017</u>	<u>2016</u>
<u>Operating Revenues</u>		
Foundation payments	\$ 318,442	\$ 274,599
Other revenues	300	-
Total operating revenues	<u>318,742</u>	<u>274,599</u>
<u>Operating Expenses</u>		
Purchased services	243,780	209,147
Materials and supplies	24,248	58,020
Other	18,249	24,332
Total operating expenses	<u>286,277</u>	<u>291,499</u>
<u>Non-operating revenues</u>		
Federal grants	48,322	48,972
Interest income	2,513	422
Total non-operating revenues	<u>50,835</u>	<u>49,394</u>
Change in net cash position	83,300	32,494
Net cash position at beginning of year	<u>488,360</u>	<u>455,866</u>
Net cash position at end of year	<u>\$ 571,660</u>	<u>\$ 488,360</u>

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017
(Unaudited)

The School had an increase in purchased services for instructional costs from the North Central Ohio Educational Service Center. The net cash position of the School increased \$83,300.

Capital Assets and Debt Administration

Capital Assets

The School does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The School does not have any debt obligations outstanding as of June 30, 2017.

Current Financial Related Activities

The School is sponsored by the North Central Ohio Educational Service Center. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Elaine Drumm, Treasurer, North Central Ohio Educational Service Center, 928 W. Market Street, Suite A, Tiffin, Ohio 44883, or email at edrumm@mresc.org.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2017

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 566,140
Total assets.	<u>566,140</u>

Net cash position:

Restricted for federal programs.	11,875
Unrestricted.	<u>554,265</u>
Total net cash position.	<u>\$ 566,140</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Operating revenues:	
Foundation payments.	\$ 318,442
Other revenues.	300
Total operating revenues	318,742
Operating expenses:	
Purchased services.	243,780
Materials and supplies	24,248
Other.	18,249
Total operating expenses.	286,277
Operating income.	32,465
Non-operating revenues:	
Federal and state grants.	48,322
Interest revenue	2,513
Total non-operating revenues.	50,835
Change in net cash position	83,300
Net cash position at beginning of year. . . .	482,840
Net cash position at end of year	\$ 566,140

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Hardin Community School (the "School") serves as a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is a charter school in the State of Ohio.

In October 2010, the Hardin County Court of Common Pleas, Juvenile Division (Lifeworks Center), the Hardin Community School, and the Hardin County Educational Service Center (Sponsor), entered into a Memorandum of Understanding (MOU) toward establishing a mutual framework governing the respective organizational relationships, responsibilities, activities, and cooperation. The Lifeworks Center serves young people on court probation by academically assisting students with a mixture of education, vocational assistance, mentoring, mental health and drug and alcohol services so as to improve the possibility of success for the student, family and the Hardin County community. The School, through its Sponsor, is the educational provider of a diverse education program. Its students are actively involved in learning activities as individual staff and faculty offer areas of expertise that are equally diverse; educating high risk as well as more traditional students, who are enrolled.

The School was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2010 and ending on June 30, 2015. Effective August 1, 2013, the School's Sponsor changes from the Hardin County Educational Service Center to the North Central Ohio Educational Service Center. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven member Governing Board that serves on a volunteer-basis. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School's accounting policies.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position and a statement of revenues, expenses and change in net position. The statement of net position presents the cash balance of the business-type activities of the School at fiscal year end.

The statement of revenues, expenses and changes in net position compares disbursements with receipts for each function of the School's business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Accounting

The School uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The School's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except under Ohio Revised Code Section 5705.391, the School must prepare a five-year spending plan and submit it to the Ohio Superintendent of Public Instruction.

D. Cash and Cash Equivalents

Cash held by the School is reflected as "cash and cash equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2017, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For fiscal year 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Inventory and Prepaid Items

The School reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Operating Revenues and Expenses

Operating revenues are those receipts that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

I. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation payments for the fiscal year 2017 amounted to \$318,442.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. During 2017, the School received \$48,322 in grants and entitlements during fiscal year 2017.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2017, the District has implemented GASB Statement No. 77, “*Tax Abatement Disclosures*”, GASB Statement No. 78, “*Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*”, GASB Statement No. 80, “*Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*” and GASB Statement No. 82, “*Pension Issues - An Amendment of GASB Statements No. 67, No. 68 and No. 73*”.

GASB Statement No. 77 requires governments that enter into tax abatement agreements to disclose certain information about the agreement. GASB Statement No. 77 also requires disclosures related to tax abatement agreements that have been entered into by other governments that reduce the reporting government’s tax revenues. The implementation of GASB Statement No. 77 did not have an effect on the financial statements of the District.

GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan) that meets the criteria in paragraph 4 of Statement 68 and that (a) is not a state or local governmental pension plan, (b) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (c) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The implementation of GASB Statement No. 78 did not have an effect on the financial statements of the District.

GASB Statement No. 80 improves the financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement applies to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The implementation of GASB Statement No. 80 did not have an effect on the financial statements of the District.

GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The implementation of GASB Statement No. 82 did not have an effect on the financial statements of the District.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, Net Position/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2017, the carrying amount of all School deposits was \$429,582. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of June 30, 2017, the School’s entire bank balance of \$429,585 was covered by the FDIC.

B. Investments

As of June 30, 2017, the School had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 136,555	\$ 136,555

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the School’s investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or debt of the School

Credit Risk: Standard & Poor’s has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School’s investment policy does not specifically address credit risk beyond requiring the School to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2017:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 136,555	100.00

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2017:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 429,585
Investments	<u>136,555</u>
Total	<u>\$ 566,140</u>
 <u>Cash and investments per financial statements</u>	
Total	<u>\$ 566,140</u>

NOTE 5 - RISK MANAGEMENT

Property and Liability

The School 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 2017, the School obtained risk management coverage through the Schools of Ohio Risk Sharing Authority (SORSA). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

NOTE 6 - OTHER EMPLOYEE BENEFITS

The employees of the School are employed by North Central Ohio Educational Service Center. Policies and procedures are approved by the North Central Ohio Educational Service Center Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of staff utilized from the North Central Ohio Educational Service Center by contract.

NOTE 7 - FISCAL AGENT AND ADMINISTRATIVE SERVICES

The School entered into a contract effective August 1, 2013 with the North Central Ohio Educational Service Center (Sponsor) for educational and financial management services. The School paid the Sponsor \$90,521 for services provided during fiscal year 2017 and a sponsor fee of \$8,573. Per the purchased services agreement, the Sponsor provides labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Schools. In addition, the Sponsor provides fiscal services to the School.

The Treasurer, employed by the North Central Ohio ESC, performs all of the following functions while services as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 7 - FISCAL AGENT AND ADMINISTRATIVE SERVICES - (Continued)

- Maintain all financial records of the School and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and,
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2017, expenses for purchased services were as follows:

Professional and technical services	\$ 235,201
Property services	719
Administrative/meeting expenses	2,056
Communications	<u>5,804</u>
Total	<u>\$ 243,780</u>

NOTE 9 - OPERATING LEASE AGREEMENT

The Sponsor entered into a lease agreement with the Hardin County Commissioners for the period July 1, 2015 through June 30, 2018 to rent a building located at 400 Decatur Street, Kenton, Ohio. This lease is at no cost to the Sponsor, except for repairs, maintenance, utilities and insurance. The Sponsor provides the space to the School.

NOTE 10 - CONTINGENCIES

A. Grants

The School receives financial assistance from federal and State agencies in the form of grants. The disbursement 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2017.

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The 2017 enrollment review has not been finalized, however the School does not anticipate any significant adjustments to State funding for the fiscal year 2018.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

NOTE 11 - SIGNIFICANT SUBSEQUENT EVENT

Alina Nemec resigned as Treasurer effective October 16, 2017 and Elaine Drumm became Treasurer effective October 16, 2017.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

The discussion and analysis of the Hardin Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2016 are as follows:

- In total, net cash position was \$482,840 at June 30, 2016.
- The School had operating revenues of \$274,599 and operating expenses of \$291,499 for fiscal year 2016.
- The School also received \$43,874 in non-operating revenue during fiscal year 2016.
- Total change in net cash position for fiscal year 2016 was an increase of \$26,974, from a beginning balance of \$455,866 to a balance of \$482,840.

Using these Cash Basis 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 School's financial activities. The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis provide information about the activities of the School.

Reporting the School's Financial Activities

Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position - Cash Basis

These documents look at all financial transactions and ask the question, "How did the School do financially during 2016?" The statement of net position – cash basis statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

These two statements report the School's net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the School as a whole, the cash basis financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 19 and 20 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 21 - 28 of this report.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

The table below provides a summary of the School's net cash position for fiscal years 2016 and 2015.

	Net Cash Position	
	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets	\$ 482,840	\$ 455,866
Total assets	<u>482,840</u>	<u>455,866</u>
<u>Net Cash Position</u>		
Restricted	11,875	11,875
Unrestricted	<u>470,965</u>	<u>443,991</u>
Total net cash position	<u>\$ 482,840</u>	<u>\$ 455,866</u>

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the School increased \$26,974, which represents a 5.92% increase from net cash position at June 30, 2015. A portion of the School's net cash position, \$11,875, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash position of \$470,965 may be used for the School's ongoing operations.

The table below shows the changes in net position for fiscal year 2016 and 2015.

	<u>2016</u>	<u>2015</u>
<u>Operating Revenues</u>		
Foundation payments	\$ 274,599	\$ 287,156
Sales/charges for services	-	3,606
Other	-	461
Total operating revenues	<u>274,599</u>	<u>291,223</u>
<u>Operating Expenses</u>		
Purchased services	209,147	174,736
Materials and supplies	58,020	63,847
Capital outlay	-	20,062
Other	<u>24,332</u>	<u>16,505</u>
Total operating expenses	<u>291,499</u>	<u>275,150</u>
<u>Non-operating revenues</u>		
Federal grants	43,452	48,972
Interest income	<u>422</u>	<u>-</u>
Total non-operating revenues	<u>43,874</u>	<u>48,972</u>
Change in net cash position	26,974	65,045
Net cash position at beginning of year	<u>455,866</u>	<u>390,821</u>
Net cash position at end of year	<u>\$ 482,840</u>	<u>\$ 455,866</u>

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
(Unaudited)

The School had an increase in purchased services for instructional costs from the North Central Ohio Educational Service Center. In 2015, the School had \$20,062 in capital outlay expenses and in 2016 there were no capital outlay expenses. The net cash position of the School increased \$26,974.

Capital Assets and Debt Administration

Capital Assets

The School does not record capital assets in the accompanying cash basis basic financial statements, but records payments for capital assets as cash disbursements.

Debt Administration

The School does not have any debt obligations outstanding as of June 30, 2016

Current Financial Related Activities

The School is sponsored by the North Central Ohio Educational Service Center. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

In order to continually provide learning opportunities to the School's students, the School will apply resources to best meet the needs of its students. It is the intent of the School to apply for other State and Federal funds that are made available to finance its operations.

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Elaine Drumm, Treasurer, North Central Ohio Educational Service Center, 928 W. Market Street, Suite A, Tiffin, Ohio 44883, or email at edrumm@mresc.org.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2016

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$ 482,840
Total assets.	<u>482,840</u>

Net cash position:

Restricted for federal programs.	11,875
Unrestricted.	<u>470,965</u>
Total net cash position.	<u>\$ 482,840</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Operating revenues:	
Foundation payments.	\$ 292,954
Total operating revenues	292,954
Operating expenses:	
Purchased services.	209,147
Materials and supplies	58,020
Other.	24,332
Total operating expenses.	291,499
Operating income.	1,455
Non-operating revenues:	
Federal and state grants.	25,097
Interest revenue	422
Total non-operating revenues.	25,519
Change in net cash position	26,974
Net cash position at beginning of year.	455,866
Net cash position at end of year	\$ 482,840

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

The Hardin Community School (the "School") serves as a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is a charter school in the State of Ohio.

In October 2010, the Hardin County Court of Common Pleas, Juvenile Division (Lifeworks Center), the Hardin Community School, and the Hardin County Educational Service Center (Sponsor), entered into a Memorandum of Understanding (MOU) toward establishing a mutual framework governing the respective organizational relationships, responsibilities, activities, and cooperation. The Lifeworks Center serves young people on court probation by academically assisting students with a mixture of education, vocational assistance, mentoring, mental health and drug and alcohol services so as to improve the possibility of success for the student, family and the Hardin County community. The School, through its Sponsor, is the educational provider of a diverse education program. Its students are actively involved in learning activities as individual staff and faculty offer areas of expertise that are equally diverse; educating high risk as well as more traditional students, who are enrolled.

The School was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2010 and ending on June 30, 2015. Effective August 1, 2013, the School's Sponsor changes from the Hardin County Educational Service Center to the North Central Ohio Educational Service Center. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

The School operates under the direction of a seven member Governing Board that serves on a volunteer-basis. The Governing Board is responsible for carrying out the provisions of the contract, which include but are not limited to, state-mandated provisions regarding student population, curriculum, academic goals, performance standards, admission standards, and qualifications of teachers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed in Note 2.B, these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements, which have been applied to the extent they are applicable to the cash basis of accounting. Following are the more significant of the School's accounting policies.

A. Basis of Presentation

The School's basic financial statements consist of a statement of net position and a statement of revenues, expenses and change in net position. The statement of net position presents the cash balance of the business-type activities of the School at fiscal year end.

The statement of revenues, expenses and changes in net position compares disbursements with receipts for each function of the School's business-type activities. Disbursements are reported by function. A function is a group of related activities designed to accomplish a major service or regulatory program for which the government is responsible.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Accounting

The School uses enterprise accounting to track and report on its financial activities. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The School's financial statements are prepared using the cash basis of accounting. Receipts are recorded in the School's financial records and reported in the financial statements when cash is received rather than when earned and disbursements are recorded when cash is paid rather than when a liability is incurred.

As a result of the use of this cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

C. Budgetary Process

Unlike other public schools located in the State of Ohio, community schools are not required to follow budgetary provisions set forth in Ohio Revised Code Section 5705, except under Ohio Revised Code Section 5705.391, the School must prepare a five-year spending plan and submit it to the Ohio Superintendent of Public Instruction.

D. Cash and Cash Equivalents

Cash held by the School is reflected as "cash and cash equivalents" on the statement of net position. Investments with an original maturity of three months or less at the time they are purchased are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months are reported as investments. During fiscal year 2016, investments were limited to investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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 has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The School measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

For fiscal year 2016, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding \$25 million. STAR Ohio reserves the right to limit the transaction to \$50 million, requiring the excess amount to be transacted the following business day(s), but only to the \$50 million limit. All accounts of the participant will be combined for these purposes.

E. Capital Assets

Acquisitions of property, plant, and equipment purchased are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

F. Inventory and Prepaid Items

The School reports disbursements for inventory and prepaid items when paid. These items are not reflected as assets in the accompanying financial statements.

G. Net Cash Position

Net cash position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

H. Operating Revenues and Expenses

Operating revenues are those receipts that are generated directly from the primary activity of the School. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the School. All revenues and expenses not meeting this definition are reported as non-operating.

I. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation payments for the fiscal year 2016 amounted to \$292,954.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. During 2016, the School received \$25,097 in grants and entitlements during fiscal year 2016.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2016, the School has implemented GASB Statement No. 72, "*Fair Value Measurement and Application*", GASB Statement No. 73 "*Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*", GASB Statement No. 76, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*", and GASB Statement No. 79, "*Certain External Investment Pools and Pool Participants*".

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurement. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The implementation of GASB Statement No. 72 did not have an effect on the financial statements of the School.

GASB Statement No. 73 improves the usefulness of information about pensions included in the general purposes external financial reports of state and local governments for making decisions and assessing accountability. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the School.

GASB Statement No. 76 identifies - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the School.

GASB Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the School.

B. Compliance

Ohio Administrative Code, Section 117-2-03(B), requires the School to prepare its annual financial report in accordance with generally accepted accounting principles. However, the School prepared its financial statements on cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, Net Position/fund balances, and disclosures that, while material, cannot be determined at this time. The School can be fined and various other administrative remedies may be taken against the School.

NOTE 4 - DEPOSITS AND INVESTMENTS

A. Deposits with Financial Institutions

At June 30, 2016, the carrying amount of all School deposits was \$347,327. Based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of June 30, 2016, the School's entire bank balance of \$347,536 was covered by the FDIC.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

B. Investments

As of June 30, 2016, the School had the following investments and maturities:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity</u> 6 months or less
STAR Ohio	\$ 135,513	\$ 135,513

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the School's investment policy limits investment portfolio maturities to five years or less, unless matched to a specific obligation or debt of the School

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The School's investment policy does not specifically address credit risk beyond requiring the School to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the School will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The School has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The School places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the School at June 30, 2016:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 135,513	100.00

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

C. Reconciliation of Cash and Investments to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2016:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 347,327
Investments	<u>135,513</u>
Total	<u>\$ 482,840</u>
 <u>Cash and investments per financial statements</u>	
Total	<u>\$ 482,840</u>

NOTE 5 - RISK MANAGEMENT

Property and Liability

The School 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 2016, the School obtained risk management coverage through the Schools of Ohio Risk Sharing Authority (SORSA). Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in insurance coverage from the prior year.

NOTE 6 - OTHER EMPLOYEE BENEFITS

The employees of the School are employed by North Central Ohio Educational Service Center. Policies and procedures are approved by the North Central Ohio Educational Service Center Board of Education and are applied to Compensated Absences, Insurance Benefits, and Deferred Compensation of staff utilized from the North Central Ohio Educational Service Center by contract.

NOTE 7 - FISCAL AGENT AND ADMINISTRATIVE SERVICES

The School entered into a contract effective August 1, 2013 with the North Central Ohio Educational Service Center (Sponsor) for educational and financial management services. The School paid the Sponsor \$93,027 for services provided during fiscal year 2016 and a sponsor fee of \$8,984. Per the purchased services agreement, the Sponsor provides labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Schools. In addition, the Sponsor provides fiscal services to the School.

The Treasurer, employed by the North Central Ohio ESC, performs all of the following functions while services as the Chief Fiscal Officer of the School:

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE 7 - FISCAL AGENT AND ADMINISTRATIVE SERVICES - (Continued)

- Maintain all financial records of the School and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;
- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and,
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

NOTE 8 - PURCHASED SERVICES

For fiscal year ended June 30, 2016, expenses for purchased services were as follows:

Professional and technical services	\$ 199,243
Property services	1,032
Administrative/meeting expenses	2,996
Communications	5,439
Other purchases	<u>437</u>
Total	<u>\$ 209,147</u>

NOTE 9 - OPERATING LEASE AGREEMENT

The Sponsor entered into a lease agreement with the Hardin County Commissioners for the period July 1, 2015 through June 30, 2018 to rent a building located at 400 Decatur Street, Kenton, Ohio. This lease is at no cost to the Sponsor, except for repairs, maintenance, utilities and insurance. The Sponsor provides the space to the School.

NOTE 10 - CONTINGENCIES

A. Grants

The School receives financial assistance from federal and State agencies in the form of grants. The disbursement 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. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2016.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 10 – CONTINGENCIES – (Continued)

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The 2016 enrollment review has not been finalized, however the School does not anticipate any significant adjustments to State funding for the fiscal year 2017.

NOTE 11 - SIGNIFICANT SUBSEQUENT EVENT

Mandy France resigned as Treasurer effective June 30, 2016 and Alina Nemeč became Treasurer effective July 1, 2016.



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Required by *Government Auditing Standards*

Hardin Community School
Hardin County
333 East Center Street
Marion, Ohio 43302

To the Board of the Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of Hardin Community School, Hardin County, (the School) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated October 23, 2017 wherein we noted the School uses a special purpose framework other than generally accepted accounting principles.

Internal Control over Financial Reporting

As part of our financial statement audit, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the School's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the School's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Hardin Community School

Hardin County

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Required by
Government Auditing Standards

Page 2

Compliance and Other Matters

As part of reasonably assuring whether the School'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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2017-001.

Entity's Response to Finding

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BHM CPA Group, Inc.

Piketon, Ohio

October 23, 2017

**Hardin Community School
Hardin County**

**Schedule of Findings
June 30, 2017 and 2016**

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

FINDING NUMBER 2017-001

Noncompliance Citation

Ohio Revised Code § 117.38 provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code § 117-2-03 further clarifies the requirements of Ohio Revised Code § 117.38.

Ohio Administrative Code § 117-2-03(B) requires all community schools to file annual financial reports which are prepared using generally accepted accounting principles. The School prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code § 117.38 the School may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The School should take the necessary steps to ensure that the financial report is prepared in accordance with generally accepted accounting principles.

Client Response: The Community School acknowledges the Ohio requirement for GAAP filing. The Board agrees that the additional expense of an accounting firm to comply with this requirement would create economic pressures for the school. The Board agrees it is not in the best interest of the School to pursue GAAP filing.

**Hardin Community School
Schedule of Prior Audit Findings
June 30, 2017 and 2016**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2015-001	Material Non-Compliance: OAC 117-2-03(B) – failed to prepare financial statement using generally accepted accounting principals	No	Not Corrected. Reissued as finding 2017-001



Dave Yost • Auditor of State

HARDIN COMMUNITY SCHOOL

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 12, 2017**