



**Auditor of State  
Betty Montgomery**



EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY

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**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

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

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Hardin County, (the "Center"), as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Hardin County, as of June 30, 2002, and the results of its operations for the 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 February 20, 2003, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

**Betty D. Montgomery**  
Auditor of State

February 28, 2003

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**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**COMBINED BALANCE SHEET  
ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2002**

	<b>Governmental Fund Types</b>		
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
<b>Assets and Other Debits:</b>			
<b>Assets:</b>			
Equity in Pooled Cash and Cash Equivalents	\$709,263	\$80,372	\$2,812
<b>Receivables:</b>			
Accounts	32,565		
Intergovernmental	4,166	13,461	
Contract Services Receivable	178,444		
Due from Other Funds	53,144		
Prepaid Items	17,480	1,728	
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
<b>Other Debits</b>			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	995,062	95,561	2,812
<b>Liabilities, Fund Equity and Other Credits:</b>			
<b>Liabilities:</b>			
Accounts Payable	21,334	1,814	
Accrued Wages	134,908	26,306	
Compensated Absences Payable	15,000		
Intergovernmental Payable	19,763	3,899	
Contract Services Payable	54,897		
Deferred Revenue	143,152		
Due to Other Funds		53,144	
Capital Lease Payable			
Undistributed Monies			
Total Liabilities	389,054	85,163	
<b>Fund Equity and Other Credits:</b>			
Investment in General Fixed Assets			
Fund Balance:			
Reserved for Encumbrances	1,379	39,074	2,812
Reserved for Prepaid Items	17,480	1,728	
Unreserved:			
Undesignated	587,149	(30,404)	
Total Fund Equity and Other Credits	606,008	10,398	2,812
Total Liabilities, Fund Equity and Other Credits	\$995,062	\$95,561	\$2,812

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



Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$167,454			\$959,901
			32,565
			17,627
			178,444
			53,144
			19,208
	379,595		379,595
		127,550	127,550
<u>167,454</u>	<u>379,595</u>	<u>127,550</u>	<u>1,768,034</u>
			23,148
			161,214
		67,705	82,705
		3,279	26,941
			54,897
			143,152
			53,144
		56,566	56,566
<u>167,454</u>			<u>167,454</u>
<u>167,454</u>		<u>127,550</u>	<u>769,221</u>
	379,595		379,595
			43,265
			19,208
			556,745
	<u>379,595</u>		<u>998,813</u>
<u>\$167,454</u>	<u>\$379,595</u>	<u>\$127,550</u>	<u>\$1,768,034</u>

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	<u>Governmental Fund Types</u>			<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
<b>Revenues:</b>				
Intergovernmental	\$601,218	\$476,778	\$3,297	\$1,081,293
Interest	25,967			25,967
Tuition, Fees, and Contract Services	1,321,202			1,321,202
Customer Services	91,503			91,503
Miscellaneous	51,217	3,000		54,217
<b>Total Revenues</b>	<u>2,091,107</u>	<u>479,778</u>	<u>3,297</u>	<u>2,574,182</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	73,374	113,522		186,896
Special	549,181			549,181
Support Services:				
Pupils	391,264			391,264
Instructional Staff	184,141	107,353		291,494
Board of Education	15,437			15,437
Administration	275,520	86,503		362,023
Fiscal	219,043			219,043
Business	3,732			3,732
Operation and Maintenance of Plant	450	17,671		18,121
Central	9,553			9,553
Operation of Non-Instructional				
Services	160			160
Extracurricular Activities	1,697	5		1,702
Contract Services	54,897	502,637		557,534
Capital Outlay	32,286		485	32,771
Debt Service:				
Principal Retirement	10,055			10,055
Interest and Fiscal Charges	3,485			3,485
<b>Total Expenditures</b>	<u>1,824,275</u>	<u>827,691</u>	<u>485</u>	<u>2,652,451</u>
Excess of Revenues Over (Under) Expenditures	<u>266,832</u>	<u>(347,913)</u>	<u>2,812</u>	<u>(78,269)</u>
Other Financing Sources (Uses):				
Inception of Capital Lease	32,286			32,286
Proceeds from Sale of Fixed Assets	1,595			1,595
Operating Transfers In		31,598		31,598
Operating Transfers Out	(31,598)			(31,598)
<b>Total Other Financing Sources (Uses)</b>	<u>2,283</u>	<u>31,598</u>		<u>33,881</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	269,115	(316,315)	2,812	(44,388)
Fund Balances at Beginning of Year	<u>336,893</u>	<u>326,713</u>		<u>663,606</u>
<b>Fund Balances at End of Year</b>	<u><u>\$606,008</u></u>	<u><u>\$10,398</u></u>	<u><u>\$2,812</u></u>	<u><u>\$619,218</u></u>

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**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - BUDGET (NON-GAAP BASIS) AND ACTUAL  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED JUNE 30, 2002**

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues:</b>			
Intergovernmental	\$866,824	\$926,681	\$59,857
Interest	40,000	25,967	(14,033)
Tuition, Fees, and Contract Services	986,025	697,228	(288,797)
Miscellaneous	290,100	390,037	99,937
Total Revenues	<u>2,182,949</u>	<u>2,039,913</u>	<u>(143,036)</u>
<b>Expenditures:</b>			
Current:			
Instruction:			
Regular	109,088	65,077	44,011
Special	724,023	700,906	23,117
Support Services:			
Pupils	441,292	406,711	34,581
Instructional Staff	290,892	186,453	104,439
Board of Education	18,207	17,497	710
Administration	336,384	298,399	37,985
Fiscal	228,840	226,032	2,808
Operation and Maintenance of Plant	1,000	450	550
Pupil Transportation			
Central	14,725	9,417	5,308
Extracurricular Activities	1,000	1,697	(697)
Community Environment	2,250	205	2,045
Capital Outlay			
Total Expenditures	<u>2,167,701</u>	<u>1,912,844</u>	<u>254,857</u>
Excess of Revenues Over (Under) Expenditures	<u>15,248</u>	<u>127,069</u>	<u>111,821</u>
<b>Other Financing Sources (Uses):</b>			
Other Financing Sources		20	20
Other Financing (Uses)			
Sale of Fixed Assets		1,595	1,595
Advance In	6,500	6,500	
Advance Out	(6,500)	(6,500)	
Operating Transfers In			
Operating Transfers Out	(31,598)	(31,598)	
Total Other Financing Sources (Uses)	<u>(31,598)</u>	<u>(29,983)</u>	<u>1,615</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(16,350)</u>	<u>97,086</u>	<u>113,436</u>
Fund Balances (Deficit) at Beginning of Year	532,966	532,966	
Prior Year Encumbrances Appropriated	<u>56,498</u>	<u>56,498</u>	
Fund Balances (Deficit) at End of Year	<u>\$573,114</u>	<u>\$686,550</u>	<u>\$113,436</u>

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

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$724,911	\$495,757	(\$229,154)	\$3,297	\$3,297	
3,000	3,000				
<u>727,911</u>	<u>498,757</u>	<u>(229,154)</u>		<u>3,297</u>	
338,686	214,877	123,809			
2,200		2,200			
217,319	229,332	(12,013)			
68,623	163,250	(94,627)			
148,333	173,525	(25,192)			
2,500	2,500	0			
21,169	24,954	(3,785)			
1,000	548	452			
1,500	31	1,469			
5	5				
				3,297	
<u>801,335</u>	<u>809,022</u>	<u>(7,687)</u>		<u>3,297</u>	
<u>(73,424)</u>	<u>(310,265)</u>	<u>(236,841)</u>			
(41,562)	(58,560)	(16,998)			
31,598	31,598				
<u>(9,964)</u>	<u>(26,962)</u>	<u>(16,998)</u>			
(83,388)	(337,227)	(253,839)			
137,768	137,768				
<u>239,205</u>	<u>239,205</u>				
<u>\$293,585</u>	<u>\$39,746</u>	<u>(\$253,839)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002**

**1. DESCRIPTION**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Center's accounting policies are described below.

**A. Reporting Entity**

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

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

**1. Primary Government:**

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

**2. Component Units:**

Component units are legally separate organizations for which the 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.

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Jointly Governed Organizations**

The Center is associated with three jointly governed organizations; the Western Ohio Computer Organization, the West Central Ohio Special Education Regional Resource Center, and the Ohio-Hi Point Joint Vocational School. Information about these organizations is presented in Note 14 to the general purpose financial statements.

**4. Insurance Pools:**

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

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

**5. Fiscal Agent Services:**

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

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

**B. Basis of Presentation - Fund Accounting**

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

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

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



**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1. Governmental Fund Types:**

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

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

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

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

**2. Fiduciary Fund Type:**

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

**3. Account Groups:**

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

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

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

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**D. Budgetary Process**

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

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

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

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**1. Appropriations:**

The annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Center's Board.

The Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

**2. Encumbrances:**

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

**3. Lapsing of Appropriations:**

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

**E. Cash and Cash Equivalents**

To improve cash management, all cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through Center records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

During fiscal year 2002, investments were limited to an overnight repurchase agreement and STAR Ohio. Investments are stated at cost. Investment earnings are allocated as authorized by State Statute. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments with the State to pool their funds for investment purposes.

The school district has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2002. 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, 2002.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$25,967, which includes \$12,374 from other Center's funds and funds held in the fiscal agent capacity.

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

**F. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

**G. Estimates**

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

**H. Fixed Assets and Depreciation**

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

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

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**I. Intergovernmental Revenues**

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

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

**Entitlements  
General Fund**

State Foundation Program

**Non-Reimbursable Grants  
Special Revenue Funds**

Education Management Information Systems  
Public School – Preschool  
One Net Connectivity  
School Net  
Alternative/Opportunity School  
Title VI-B Flow Thru  
Early Literacy Grant  
Preschool Disability  
Hardin County Academy

**Non-Reimbursable Grants  
Capital Project Fund**

One Net

Grants and entitlements amounted to approximately 42 percent of the Center's operating revenue during the 2002 fiscal year.

**J. Compensated Absences**

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the Center will compensate the employees for the benefits through paid time off or some other means. The Center records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Center has identified as probable of receiving payment in the future.

The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Center's termination policy. The Center records a liability for accumulated unused sick leave for all employees after fifteen years of service.

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**K. Accrued Liabilities and Long-term Obligations**

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

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

**L. Interfund Transactions**

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

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

**M. Fund Balance Reserves**

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

**N. Flow-Through Grants**

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

**O. Total Columns on General Purpose Financial Statements**

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

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**3. BUDGETARY BASIS OF ACCOUNTING**

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances.

The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual-All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses Governmental Fund Types</b>			
	<b>General</b>	<b>Special Revenue</b>	<b>Capital Projects</b>
Budgetary Basis	\$97,086	\$(337,227)	\$ -
<u>Increase (Decrease) Due To:</u>			
Revenue Accruals	44,674	(18,979)	-
Expenditure Accruals	104,642	(735)	-
Encumbrances Outstanding (Budget Basis)	22,713	40,626	2,812
GAAP Basis	\$269,115	\$(316,315)	\$2,812

**4. EQUITY IN POOLED CASH AND INVESTMENTS**

**A. Deposits**

State statutes classify monies held by the center into three categories.

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

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

**Interim Monies** - those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Protection of the Center's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer, by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Inactive moneys may be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;
2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's Investment pool (STAROhio);

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Service Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.



**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**4. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)**

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

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

At fiscal year end, the carrying amount of the Center's deposits was \$455,348 the bank balance was \$523,343. Of the bank balance, \$100,000 was covered by federal depository insurance and \$423,343 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the name of the Center, and all State statutory requirements for the deposit of the money had been followed, non-compliance with federal requirements would potentially subject the Center to a successful claim by the Federal Deposit Insurance Corporation.

**B. Investments**

The Center's investments are categorized below to give an indication of the level of risk assumed by the Center at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the Center's name.

Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Center's name. The Center's investment in STAR Ohio is unclassified because it is not evidenced by securities that exist in physical or book form. At year end, the Center's investment in STAROhio had a market value of \$504,453.

During fiscal year 2002, the Center's overnight repurchase agreement account was converted to a depository account by the banking institution. Collateral for this investment is now provided by federal depository insurance and pooled collateral.

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

	<b>Cash and Cash Equivalents/ Deposits</b>	<b>Investments</b>
GASB Statement No. 9	\$ 959,901	\$0
Cash on Hand	(100)	
Cash Management Pool: STAR Ohio	(504,453)	504,453
GASB Statement No. 3	\$ 455,348	\$ 504,453

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**5. STATE FUNDING**

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

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by agreed upon deduction from \$6.50 for the City of Kenton and Ada Exempted Village School Districts and \$20.56 for the other four school districts. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school district's served by the Center by \$37. This amount is provided from State resources.

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

**6. RECEIVABLES**

Receivables at June 30, 2002 consisted of accounts, interfund, and intergovernmental grants, and contracts. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of receivables is as follows:

	<b>Amounts</b>
General Fund:	
Intergovernmental Receivables	\$ 4,166
Fees (Contract Services) Receivable	178,444
Due From Other Funds	53,144
Accounts Receivable	32,565
Total General Fund Receivables	268,319
Special Revenue Fund:	
Intergovernmental Receivables	13,461
Total Receivables	\$ 281,780

**7. FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2002 follows:

<b>Classification</b>	<b>Balance at June 30, 2001</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2002</b>
Furniture, Fixtures and Equipment	\$ 344,794	\$34,801	\$ -	\$379,595

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**8. 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 2002, the Center contracted with Nationwide Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by Westfield Insurance Company and holds a \$500 deductible.

Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverages from last year.

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

For fiscal year 2002, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the "Plan"), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the Plan.

A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund". This "equity pooling fund" arrangement insures that each participant shares equally in the overall performance of the Plan. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The school districts apply for participation each year. The firm of Gates McDonald and Co. provides administrative, cost control, and actuarial services to the Plan. Each year, the School District pays an enrollment fee to the Plan to cover the costs of administering the program.

**9. DEFINED BENEFIT PENSION PLANS**

**A. School Employees Retirement System**

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retirement benefits, disability, cost of living adjustments and death benefits to members and beneficiaries.

Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Columbus, Ohio 43215-3746.

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**9. DEFINED BENEFIT PENSION PLANS (Continued)**

Plan members are required to contribute 9 percent of their annual covered salary and the Center is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 percent was the portion used to fund pension obligations for fiscal year 2002. For fiscal year 2001, 4.2 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, 2002, 2001, and 2000, were \$32,358, \$20,365, and \$19,999, respectively; 95 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$1,764, representing the unpaid contribution for fiscal year 2002 is recorded as a liability within the respective funds and the general long-term obligations account group.

**B. State Teachers Retirement System**

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, cost of living adjustments and death benefits based to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3 percent of their annual covered salary and the District is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations for fiscal year 2002 and 2001. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers.

The District's required contribution for pension obligations to STRS for the fiscal years ending June 30, 2002, 2001, and 2000, were \$96,120, \$60,696, and \$52,436, respectively; 91 percent has been contributed for fiscal year 2002 and 100 percent for the fiscal years 2001 and 2000. \$8,383 representing the unpaid contribution for fiscal year 2002, is recorded as a liability within the respective funds.

**C. Social Security Tax**

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2002, one board of education member has elected Social Security. The Board's liability is 6.2 percent of wages paid.

**10. POSTEMPLOYMENT BENEFITS**

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS).

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**10. POSTEMPLOYMENT BENEFITS (Continued)**

Benefits include hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare premiums. Benefit provisions and the obligation to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund from which payments of health care benefits are paid. The balance in the Health Care Reserve Fund was 3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000. As of July 1, 2001, eligible benefit recipients totaled 102,132. For the Center, the amount contributed for postemployment benefits equaled \$45,531 during the 2002 fiscal year.

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

For this fiscal period, employer contributions to fund health care benefits were 9.8 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 2002, the minimum pay had been established at \$12,400. The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150% of annual health care expenses. Expenses for health care at June 30, 2001 (latest information available) were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001, the Retirement System's net assets available for payment of health care benefits was \$315.7 million. The number of participants currently receiving health care benefits is approximately 50,000. For the Center, the amount to fund health care benefits, including the surcharge, was \$49,502 for the fiscal year ended June 30, 2002.

**11. 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.

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**11. 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.

**12. CAPITAL LEASES**

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

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$70,373. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 2002 totaled \$10,055 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, 2002:

<b>Fiscal Year Ending June 30:</b>	<b>Amounts</b>
2003	\$16,740
2004	16,740
2005	16,740
2006	11,455
2007	3,200
Total minimum lease payments	\$64,875
Less: Amount representing interest	8,309
Present Value of net minimum lease payments	\$56,566

**13. LONG TERM OBLIGATIONS**

The changes in the Center's long-term obligations during fiscal year 2002 were as follows:

	<b>Balance at June 30, 2001</b>	<b>Additions</b>	<b>Deductions</b>	<b>Balance at June 30, 2002</b>
Compensated Absences Payable	\$65,901	\$1,804	\$ 0	\$67,705
Intergovernmental Payable	18,199	3,279	18,199	3,279
Capital Lease Payable	34,335	32,286	10,055	56,566
Total General Long Term Obligations	\$118,435	\$37,369	\$28,254	\$127,550

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**14. JOINTLY GOVERNED ORGANIZATION**

**A. Western Ohio Computer Organization (WOCO)**

The Center is a participant in WOCO which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools districts within each county plus one representative of the fiscal agent. Financial information can be obtained from Larry Wilberding, Director, at 129 E. 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 SERRC is governed by a board of 52 members made up of the 50 superintendents of the participating districts, one non-public school, and Wright State University whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting Krista Hart, Treasurer, at the Hardin County Educational Service Center, 1211 West Lima Avenue, Suite A, Kenton, Ohio 43326.

**15. INSURANCE POOLS**

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

The Hardin County School Employees' Health and Welfare Benefit Plan and Trust (the "Trust") is a public entity shared risk pool consisting of six school districts and the Center. The Trust is organized as a Voluntary Employee Benefit association under Section 501(c)(9) of the Internal Revenue Code and provides sick, accident and other benefits to the employees of the participating school districts. Each participating school district's superintendent is appointed to an Administrative Committee which advises the Trustee, Ohio Bank, concerning aspects of the administration of the Trust.

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

**EDUCATIONAL SERVICE CENTER  
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**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2002  
(Continued)**

**15. INSURANCE POOLS (Continued)**

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

The Center participates in a group rating plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member board of directors consisting of the President-Elect and the immediate past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program.

Each year, the participating school districts and the Center pay an enrollment fee to the GRP to cover the costs of administering the program.

**16. SCHOOL FOUNDATION PROGRAM**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

**17. CONTINGENCIES**

**Grants**

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2002.

**18. COMPLIANCE**

The Center did not certify its budget to the State Department of Education which violated the requirements of Ohio Rev. Code Section 3317.11(A).



**EDUCATIONAL SERVICE CENTER  
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**SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED JUNE 30, 2002**

<b>Federal Grantor/ Pass Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass Through Entity or Number</b>	<b>Receipts</b>	<b>Disbursements</b>
<b>Hardin County Educational Service Center (ESC)</b>				
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> (Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-SF 01P	\$4,512	\$41,473
	84.027	6B-SF 02P	221,654	198,684
Total Special Education Grants to States			226,166	240,157
Special Education Preschool Grants	84.173	PG-S1-01P	19,770	26,318
	84.173	PG-S1-02P	17,705	16,135
Total Special Education Preschool Grants			37,475	42,453
Total Special Education Cluster			263,641	282,610
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	G2-S9 00		15,000
Total Department of Education - ESC			263,641	297,610
<b>UNITED STATES DEPARTMENT OF HUMAN SERVICES</b> (Passed through Ohio Department of Mental Retardation and Developmental Disabilities)				
Medical Assistance Program (Medicaid:Title XIX)	93.778		29,619	29,619
	93.778		54,252	54,252
Total Medical Assistance Program (Medicaid:Title XIX)			83,871	83,871
<b>TOTAL FEDERAL FINANCIAL ASSISTANCE FOR EDUCATIONAL SERVICE CENTER</b>			347,512	381,481
<b>West Central Ohio Special Education Regional Resource Center (SERRC)</b>				
<b>UNITED STATES DEPARTMENT OF EDUCATION</b> (Passed through Ohio Department of Education)				
Special Education Cluster:				
Special Education Grants to States	84.027	6B-S1 01P	45,718	269,269
	84.027	6B-S1 02P	573,338	510,053
	84.027	6B-SX 02P	15,000	6,841
Total Special Education Grants to States			634,056	786,163
Education of the Handicapped Act	84.173	PG-S3-01P	20,334	37,680
	84.173	PG-S3-02P	59,640	50,477
	84.173	PG-S7-01		1,428
	84.173	PG-S7-02	11,250	8,821
Total Special Education Preschool Grants			91,224	98,406
Total Special Education Cluster			725,280	884,569
<b>GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE BOTH ESC AND SERRC</b>			<b>\$1,072,792</b>	<b>\$1,266,050</b>

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

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
JUNE 30, 2002**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B- SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)**

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



**Auditor of State  
Betty Montgomery**

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

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

To the Board of Education:

We have audited the financial statements of the Educational Service Center, Hardin County, (the "Center"), as of and for the year ended June 30, 2002, and have issued our report thereon dated February 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and questioned costs as item 2002-10233-001. We also noted a certain immaterial instance of noncompliance that we have reported to the Center's management in a separate letter dated February 20, 2003.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-10233-002, 2002-10233-003, and 2002-10233-004.

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2002-10233-003 and 2002-10233-004 to be material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of Center in a separate letter dated February 20, 2003.

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



**Betty Montgomery**  
Auditor of State

February 20, 2003



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

To the Board of Education:

**Compliance**

We have audited the compliance of the Educational Service Center, Hardin County (the "Center") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2002. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

As described in item 2002-10233-005 in the accompanying schedule of findings and questioned costs, the Center, as fiscal agent for the West Central Ohio Special Education Regional Resource Center (SERRC), did not comply with requirements regarding the period of availability and reporting that are applicable to the SERRC's Special Education Grant to States and Special Education Preschool Grant. Compliance with such requirements is necessary, in our opinion, for the Center to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

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### **Internal Control Over Compliance**

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Center in a separate letter dated February 20, 2003.

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



**Betty Montgomery**  
Auditor of State

February 20, 2002

EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
OMB CIRCULAR A -133 § .505  
JUNE 30, 2002

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

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

**FINDING NUMBER 2002-10233-001**

**Noncompliance**

**Ohio Rev. Code Section 3317.11 (A)** states that “annually, on or before a date designated by the state board of education, each educational service center’s governing board shall prepare a budget of operating expenses for the ensuing year on forms prepared and furnished by the state board of education and shall certify the budget to the state board of education, together with such other information as the board may require”. Such budget shall consist of parts A and B. “Part A shall include the cost of the salaries, employer’s retirement contributions, and travel expenses of supervisory teachers approved by the state board of education”.

“Part B shall include the cost of all other lawful expenditures of the governing board. The state board of education shall review such budget and may approve, increase, or decrease such budget”. The state board then will use this budget to reimburse the governing board. If necessary, the state board will use part B of the budget to apportion excess costs among the local school districts.

The Center’s Board approved the 2002 annual budget, however they did not certify their budget to the state board of education. The failure to certify this budget could impact the funding not only to the Center, but also to local school districts.

Monitoring procedures should be implemented by the Center to help ensure that that annual budgeted is certified to the state board of education.

**FINDING NUMBER 2002-10233-002**

**Reportable Condition  
Fulfillment of Contract Obligations**

The Center contracted with the Hardin County Job and Family Services (JFS) to provide Prevention, Retention, and Contingency (PRC) social services, referred to by the Center, as the Outreach Program for the period July 1, 2000 to June 30, 2002. The contract amount was based upon an estimated cost per child and total number of children to be served, however the contract did not provide information to support how the estimate was derived. During the contract period, the Center’s billings for the contract were monitored by the JFS to determine that the children were provided services on the dates indicated on the billing, however neither the JFS nor the Center reconciled actual costs to the amount of the contract. On July 1, 2001, the Center recorded expenditures in Special Revenue Outreach Fund in the amount of \$88,792, and posted a reduction of expenditures in the General Fund for the same amount. A special cost center within the General Fund was utilized for recording the reduction of expenditures. After recording these expenditures in the Outreach Fund, there was still a remaining balance of \$15,570 at June 30, 2002 in the Outreach Fund. In addition, as of June 30, 2002, the Center had not expended all of the Outreach Program money that was moved to the special cost center within the General Fund.

Since the contract period with the JFS expired on June 30, 2002, the Center may be responsible for returning the remaining money in the special cost center within the General Fund and in the Special Revenue Outreach Fund. In addition, since the JFS used federal money to enter into this contract, the improper expenditure of this money could result in a loss of federal funding to the JFS.

The Center should contact the JFS to mutually determine whether the contract provisions have been met, and how to handle the disposition of the excess funding available at the Center.



**FINDING NUMBER 2002-10233-003**

**Reportable Condition/Material Weakness  
Accurate Reporting of Budgetary Data**

To effectively monitor budget versus actual activity, appropriations as approved by the governing body, should be recorded in the accounting records, and periodically the governing body should review budget versus actual statements. The Center's accounting records and annual financial statements did not always reflect approved appropriations as adopted by the Board. In addition, the Board did not receive budget versus actual statements. The failure to present budget versus actual information, using the approved appropriations, to the Board could result in the Board making inappropriate spending decisions. The budgetary statements in this report have been revised to reflect the appropriations adopted by the Board.

The Board should require the Treasurer to provide monthly budget versus actual statements for their review. Periodically, the Board should compare the budget amounts in these statements to what was approved by the Board. Changes in the budgeted revenues and expenditures in the accounting system should be initiated by a resolution or approval of the Center's Board, and documented in the Board minutes. The budgetary financial statements in the Center's financial report should be reviewed for accuracy.

**FINDING NUMBER 2002-10233-004**

**Reportable Condition/Material Weakness  
Supporting Documentation and Approval for Activity Between Funds**

To help assure financial accountability, all activity between funds should have supporting documentation that clearly indicates which funds were involved and why the transaction occurred. The governing body should also approve all activity between funds. The Center recorded numerous transactions in order to reallocate expenditures from one fund to another fund. With the exception of the instance reported as finding 2002-10233-005, these reallocations did not appear to be illegal. However, these reallocations were recorded without initially providing supporting documentation or receiving Board approval. The Treasurer was able to reconstruct the supporting documentation and receive retroactive approval from the Board.

The failure to record activity between funds without adequate supporting documentation and Board approval could result in errors or irregularities occurring and not being detected in a timely manner. Along with increased audit costs, these transactions could result in the material misstatement of the financial statements or the illegal expenditure of grant money.

The Center should maintain supporting documentation, as transactions occur, for all activity recorded between funds. All activity between funds should be approved by the Board.

<b>3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS</b>
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<b>Finding Number</b>	2002-10233-005
<b>CFDA Title and Number</b>	Special Education Grants to States CFDA # 84.027 and Special Education - Preschool Grants CFDA # 84.173 (Title VI-B Cluster)
<b>Federal Award Number/Year</b>	047-480-6B-SI-01P
<b>Federal Agency</b>	Department of Education
<b>Pass-Through Agency</b>	Ohio Department of Education

**Non Compliance with Period of Availability and Reporting Requirements  
 Questioned Costs**

**34 CFR section 80.23 (b)** requires liquidation of obligations no later than 90 days (or as specified in the program regulations) after the end of the funding period. Ohio Department of Education Federal Fiscal Report Procedures #1, Requirement #2, states the data reported must reflect actual expenditures.

The Center, as fiscal agent for the Special Education Regional Resource Center (SERRC), filed final expenditure reports for the SERRC's Special Education Grants to States and the Special Education - Preschool Grants (Title VI-B Cluster) project numbers 047480-6B-SI-01P dated November 21, 2001 and 048-480-PG-S3-01P dated November 29, 2001, respectively. There were expenditures reported for both projects without supporting documentation. The expenditures recorded were offset by reductions of expenditures for the fiscal year 2002 projects. As a result, the expenditures reported for the fiscal year 2001 projects identified above were for future obligations outside the period of availability. For project number 047480-6B-SI-01P, the amount is \$4,713 and for project number 048-480-PG-S3-01P, the amount is \$15,780.

The Center, as fiscal agent for the SERRC, filed the final expenditure report for the SERRC's Special Education Grants to States and the Special Education - Preschool Grants (Title VI-B Cluster) project number 047480-6B-SI-01P dated November 21, 2001 which reflects that all funds have been spent for the indicated project numbers. The accounting records indicate that there was still a cash balance of \$2,755 as of June 30, 2002 for the grant that ended on September 30, 2001.

Based on the all the facts above, questioned costs in the amount \$7,468 (\$4,713 + \$2,755) for project number 047480-6B-SI-01P and \$15,780 for project number 048-480-PG-S3-01P are being issued.

The Center should implement procedures to help assure that funds are obligated within the period of availability, obligations are liquidated within 60 days of the end of the grant period, and that only actual expenditures are reported on the final expenditure report filed with the grantor in accordance with the grant agreement.

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**FINDING RESPONSE  
OMB CIRCULAR A -133 §.315 (c)**

<b>Finding Number</b>	<b>Finding Response</b>
2002-10233-005	<p>The issue is a problem arising from Ohio Department of Education's failure to transfer funds on time (more than three months late) and consequences to recipient Educational Service Center.</p> <p>This project is the SERRC Early Childhood program for the period 7/1/00 through 9/30/01. According to a letter from ODE's Office of Early Childhood Education, the project was approved and initial payment of project funds was requested by the Office of Early Childhood Education as of June 21, 2000. However, initial project funds in the amount of \$22,365 were not received by the ESC until 8/29/00. Because no funds had yet been received for the Early Childhood project, payroll for this program beginning with the pay of 8/4/00 was posted to the fiscal year 2000 SERRC operating grant,. Year-end (September 30, 2001) monitoring of these projects indicated that \$10,548.42 in salaries plus associated benefits had been posted to the operating grant that could be posted to the Early Childhood program. Since the operating grant for 2001 had been closed, a reduction of expenditure was made to the new (2002) operating grant and the salary and benefit costs were posted to the 2001 Early Childhood grant.</p> <p>At this point, no funds had been received for the new operating grant that began on July 1, 2001. Despite several contacts by the Hardin County Superintendent and the SERRC Director to the Ohio Department of Education Finance and Grants Management departments, and ultimately the Governor's Office, funds for the period beginning July 1, 2001 were not disbursed and there was no direction given to the SERRC or ESC as to when disbursement could be expected. It would appear there was a serious problem at ODE for which the ESC is being penalized. The intent of the Governing Board of the Hardin County Educational Service Center is to make certain that the programs that benefit students are kept up and running, so payroll and benefits for the beginning of the operating grant period were posted against the reduction of expenditures that were taken on September 30, 2001. Finally, 30% of the new operating grant was received by the ESC on October 9, 2001. Had there not been the transfer of expenses between these funds, there would have been no funds available to pay SERRC employee personnel salaries and benefits until the new funds arrived. Furthermore, since neither the SERRC nor the ESC had been informed as to when to expect distribution, we were unable to plan or adjust the last few months of the budget of the old grant.</p> <p>Staff of the Auditor of State Office and the Hardin County Educational Service Center plan to work collaboratively to determine the manner to continue the operations of the SERRC, which is an entity separate from the ESC and is not funded by the ESC, during periods from the expiration of one grant and the disbursement of funds that have been allocated under the next year's grant.</p> <p>Perhaps the Auditor of State may want to explore the above practice of ODE, since this practice created the issue.</p>

**EDUCATIONAL SERVICE CENTER  
HARDIN COUNTY**

**SCHEDULE OF PRIOR FINDINGS  
JUNE 30, 2002**

<u>Finding Number</u>	<u>Finding Summary</u>	<u>Fully Corrected?</u>	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2001-10233-001	Ohio Revised Code Section 5705.41 (D)	Yes	Fully Corrected
2001-10233-002	Accountability of Fixed Assets	No	Partially Corrected – differences not as significant – repeated in management letter
2001-10233-003	Accurate Reporting of Budgeted Revenues and Expenditures	No	Not Corrected; modified and repeated as finding 2001-10233-003
2001-10233-004	Financial Statement Reporting	Yes	Fully Corrected
2001-10233-005	Accuracy of Excess Costs Billings	No	Partially Corrected – differences not as significant – repeated in management letter
2001-10233-006	Findings and Questioned Costs over the Period of Availability and Reporting Requirements	Yes	Fully corrected for grants reported in prior audit – this noncompliance issues was repeated as finding 2001-10233-005 for different federal programs



**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  
APRIL 3, 2003**