



Mary Taylor, CPA
Auditor of State

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin County Educational Service Center, Hardin County, (the Center), as of and for the fiscal year ended June 30, 2010, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin County Educational Service Center, Hardin County, as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2011, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The budgetary comparisons for the General Fund and IDEA fund, and the Schedule of Federal Awards Receipts and Expenditures that is required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are not a required part of the basic financial statements. The budgetary comparisons for the General Fund and the IDEA Fund and the Schedule of Federal Awards Receipts and Expenditures are management's responsibility, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole



Dave Yost
Auditor of State

March 16, 2011

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED**

The discussion and analysis of Hardin County Educational Service Center's (the Center) financial performance provides an overall view of the Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- Net assets of governmental activities increased \$12,076.
- General revenues accounted for \$578,948 in revenue or 19.6% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$2,367,916 or 80.4% of total revenues of \$2,946,864.
- The Center had \$2,934,788 in expenses related to government activities; \$2,367,916 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$578,948 were adequate to provide for these programs by \$12,076.

Using this Annual Financial Report

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

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

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and *liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting reflects all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

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

Reporting the Center's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund and the IDEA fund. Information about the Center's major funds starts on page 11.

Governmental Funds

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

Fiduciary Funds

The Center acts in a trustee capacity as an agent for other entities. These activities are reported in Agency Funds in the Statement of Fiduciary Net Assets on page 15. These Agency Funds are presented separately from the Center's other financial statements since the assets cannot be used for the operations of the Center.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

The Center as a Whole

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

Table 1 provides a summary of the Center's net assets for 2010. Comparisons to fiscal year 2009 are made.

**Table 1
Governmental Activities**

	2010	2009
Assets:		
Current and Other Assets	\$1,857,106	\$1,659,260
Capital Assets, Net	10,900	21,513
Total Assets	<u>1,868,006</u>	<u>1,680,773</u>
Liabilities:		
Current and Other Liabilities	448,439	236,397
Long-Term Liabilities	20,625	57,510
Total Liabilities	<u>469,064</u>	<u>293,907</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	10,900	21,513
Unrestricted	1,388,042	1,365,353
Total Net Assets	<u>\$1,398,942</u>	<u>\$1,386,866</u>

Equity in pooled cash and cash equivalents increased \$60,091. Intergovernmental receivable increased \$15,322 while contract services receivable increased \$114,143. The increase in intergovernmental receivable was due to a larger ECSE project cash request at June 30th than what was made in the prior fiscal year. The contract services receivables increased because the fiscal year 2009 outstanding excess costs charges have not been collected by the Center yet. Therefore, there are two years worth of receivables being booked on the financial statements for contract services instead of the one year that was booked as a receivable last year.

Table 2 shows the changes in net assets for fiscal year 2010. Comparisons to fiscal year 2009 are made.

**Table 2
Change in Net Assets**

	Governmental Activities	
	2010	2009
Program Revenues:		
Charges for Services	\$1,646,534	\$1,249,821
Operating Grants and Contributions	721,382	769,594
General Revenues:		
Grants and Entitlements	503,182	595,329
Investment Earnings	1,290	8,860
Miscellaneous	74,476	122,143
Total Revenues	<u>2,946,864</u>	<u>2,745,747</u>

(Continued)

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

**Table 2
Change in Net Assets
(Continued)**

	Governmental Activities	
	2010	2009
Expenses:		
Program Expenses:		
Instruction:		
Regular	141,033	251,181
Special	470,671	285,835
Support Services:		
Pupils	990,007	735,702
Instructional Staff	234,428	174,318
Board of Education	19,510	19,507
Administration	193,681	245,076
Fiscal	151,646	174,249
Operational and Maintenance	22,432	13,192
Central	106,836	87,501
Extracurricular Activities	2,324	2,134
Intergovernmental	602,220	524,814
Total Expenses	<u>2,934,788</u>	<u>2,513,509</u>
Change in Net Assets	<u>\$ 12,076</u>	<u>\$ 232,238</u>

Support Services and intergovernmental expenditures comprised 79.2 percent of governmental program expenses, as the purpose of the center is to provide services to the county schools. Instruction was 20.8 percent. Governmental Activity net assets increased \$12,076.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 identifies the cost of these services supported by customer services and unrestricted State entitlements. Charges for services in the amount of \$1,646,534 accounted for 55.8% of the revenue, which financed operations. This statement is presented on page 10.

**Table 3
Governmental Activities**

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program Expenses:				
Instruction:				
Regular	\$ 141,033	\$ 27,088	\$ 251,181	\$ 16,324
Special	470,671	88,877	285,835	83,624
Support Services:				
Pupil	990,007	255,451	735,702	217,214
Instructional Staff	234,428	45,382	174,318	43,848
Board of Education	19,510	4,612	19,507	5,789
Administration	193,681	39,218	245,076	74,743
Fiscal	151,646	28,922	174,249	50,481
Operation and Maintenance of Plant	22,432	6,205	13,192	3,942
Central	106,836	27,238	87,501	25,226
Extracurricular Activities	2,324	569	2,134	634
Intergovernmental	602,220	43,310	524,814	(27,731)
Total Expenses	<u>\$2,934,788</u>	<u>\$566,872</u>	<u>\$2,513,509</u>	<u>\$494,094</u>

During 2010, program revenues covered 80.7% of the costs of services with the remainder covered by general revenues.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

The Center's Funds

Information about the Center's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,750,684 and expenditures of \$2,961,059. The net change in Governmental Fund balance for the year was a decrease of \$210,375. This decrease did not meet the Center's obligations as a whole. These funds are accounted for using the modified accrual basis of accounting.

General Fund - The General Fund, the Center's largest major fund, had receipts of \$2,050,159 in 2010. Disbursements of the General Fund, totaled \$2,209,679 in 2010. The General Fund's cash balance decreased \$159,520 from 2009 to 2010 due to an increase in payroll related expenditures for additional therapists.

IDEA Fund – the balance in the IDEA Fund decreased \$29,476 from 2009 to 2010 as a result of the grant proceeds collected during the fiscal year not being adequate to cover obligations.

General Fund Budgeting Highlights

The Center is not required to follow the budgetary requirements of the Ohio Revised Code. However, the Center's Board adopts an annual revenue and expenditure budget for each of the Center's funds. During the course of fiscal year 2010 the Center amended the budget numerous times, which were considered routine. The Center uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management. The most significant budgeted funds are the General Fund and the IDEA Fund.

For the General Fund, actual revenue was \$23,218 above the final budget estimate of \$2,153,591. The original appropriations of \$2,198,378 were increased to \$2,326,010 with \$2,141,317 of actual expenditures being made.

The General Fund's ending unobligated cash balance was \$207,911 above the final budgeted amount.

For the IDEA Fund, actual revenue was \$42,835 below the final budget estimate of \$598,069. The final actual expenditures of \$547,582 were \$45,113 below the final appropriations of \$592,695. The Center's ending unobligated cash balance was \$2,278 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the Center had \$10,900 (net of \$423,761 of accumulated depreciation) invested in furniture and equipment in governmental activities. Table 4 shows fiscal 2010 balances compared to 2009:

**Table 4
Capital Assets as of June 30th
(Net of Depreciation)**

	Governmental Type Activities	
	2010	2009
Furniture and Equipment	\$10,900	\$21,513
Total Capital Assets	\$10,900	\$21,513

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
UNAUDITED
(Continued)**

Debt

At June 30, 2010 the Center had no debt outstanding.

For the Future

The Center net assets decrease this fiscal year. As the preceding information shows, the Center heavily depends on its contract service payments. The future is not without challenges. Thus management must diligently plan expenses, staying carefully within the Center's five-year plan. Additional revenues must not be treated as a windfall to expand programs, but as an opportunity to extend the time horizon of the five-year plan.

In conclusion, Hardin County Educational Service Center has committed itself to financial excellence for many years. In addition, the Center's system of budgeting and internal controls are well regarded. All of the Center's financial abilities will be needed to meet the challenges of the future.

Contacting the Center's Financial Management

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	Governmental Activities
Assets:	
Equity in Pooled Cash and Cash Equivalents	\$1,339,588
Receivables:	
Intergovernmental	96,080
Contract Services	397,972
Prepaid Items	23,466
Capital Assets, Net of Accumulated Depreciation	10,900
Total Assets	1,868,006
Liabilities:	
Accrued Wages	346,342
Accounts Payable	9,796
Intergovernmental Payable	92,301
Long-Term Liabilities :	
Due in more than one year	20,625
Total Liabilities	469,064
Net Assets:	
Invested in Capital Assets, Net of Related Debt	10,900
Unrestricted	1,388,042
Total Net Assets	\$1,398,942

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Cash</u> <u>Disbursements</u>	<u>Program Cash Receipts</u>		<u>Net (Disbursements)</u> <u>Receipts and Changes in</u> <u>Net Assets</u>
		<u>Charges for</u> <u>Services and Sales</u>	<u>Operating Grants,</u> <u>and Contributions</u>	<u>Total</u>
Governmental Activities:				
Instruction:				
Regular	\$141,033	\$66,609	\$47,336	(\$27,088)
Special	470,671	289,754	92,040	(88,877)
Support Services:				
Pupil	990,007	732,270	2,286	(255,451)
Instructional Staff	234,428	171,565	17,481	(45,382)
Board of Education	19,510	14,898		(4,612)
Administration	193,681	151,134	3,329	(39,218)
Fiscal	151,646	122,724		(28,922)
Operation and Maintenance of Plant	22,432	16,227		(6,205)
Central	106,836	79,598		(27,238)
Extracurricular Activities	2,324	1,755		(569)
Intergovernmental	602,220		558,910	(43,310)
Total Governmental Activities	<u>\$2,934,788</u>	<u>\$1,646,534</u>	<u>\$721,382</u>	<u>(566,872)</u>
General Receipts				
Grants and Entitlements not Restricted to Specific Programs				503,182
Unrestricted Investment Earnings				1,290
Miscellaneous				74,476
Total General Receipts				<u>578,948</u>
Change in Net Assets				12,076
Net Assets - Beginning of Year				<u>1,386,866</u>
Net Assets - End of Year				<u>\$1,398,942</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Equity in Pooled Cash and Cash Equivalents	\$1,325,205	\$2,276	\$12,107	\$1,339,588
Receivables:				
Intergovernmental		42,835	53,245	96,080
Contract Services	397,260		712	397,972
Interfund	18,062			18,062
Prepaid Items	16,082	7,243	141	23,466
Total Assets	<u>1,756,609</u>	<u>52,354</u>	<u>66,205</u>	<u>1,875,168</u>
Liabilities:				
Accrued Wages and Benefits	219,303	92,920	34,119	346,342
Accounts Payable	9,461		335	9,796
Intergovernmental	89,706	1,824	771	92,301
Interfund			18,062	18,062
Deferred Revenue	393,708		20,856	414,564
Total Liabilities	<u>712,178</u>	<u>94,744</u>	<u>74,143</u>	<u>881,065</u>
Fund Balances:				
Reserved for Encumbrances	14,381		14,676	29,057
Unreserved, Reported in:				
General Fund	1,030,050			1,030,050
Special Revenue Funds		(42,390)	(22,614)	(65,004)
Total Fund Balances	<u>1,044,431</u>	<u>(42,390)</u>	<u>(7,938)</u>	<u>994,103</u>
Total Liabilities and Fund Balances	<u>\$1,756,609</u>	<u>\$52,354</u>	<u>\$66,205</u>	<u>\$1,875,168</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010**

Total Governmental Fund Balances \$994,103

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 10,900

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. 414,564

Some liabilities are not due and payable in the current year and therefore are not reported in the funds:

Due in More than One Year - Compensated Absences (20,625)

Net Assets of Governmental Activities \$1,398,942

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>General Fund</u>	<u>IDEA Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Intergovernmental	\$503,182	\$543,165	\$157,360	\$1,203,707
Investment Income	1,290			1,290
Tuition and Contract Services	1,471,211			1,471,211
Miscellaneous	74,476			74,476
Total Revenues	<u>2,050,159</u>	<u>543,165</u>	<u>157,360</u>	<u>2,750,684</u>
Expenditures:				
Current:				
Instruction:				
Regular	92,447		48,109	140,556
Special	390,582		88,500	479,082
Support Services:				
Pupils	992,405		2,286	994,691
Instructional Staff	232,169		4,753	236,922
Board of Education	19,510			19,510
Administration	192,132		5,513	197,645
Fiscal	159,040			159,040
Operation and Maintenance	22,432			22,432
Central	106,638			106,638
Extracurricular Activities	2,324			2,324
Intergovernmental		<u>572,641</u>	<u>29,578</u>	<u>602,219</u>
Total Expenditures	<u>2,209,679</u>	<u>572,641</u>	<u>178,739</u>	<u>2,961,059</u>
Revenue Over Expenditures	(159,520)	(29,476)	(21,379)	(210,375)
Fund Balances at Beginning of Year	<u>1,203,951</u>	<u>(12,914)</u>	<u>13,441</u>	<u>1,204,478</u>
Fund Balances at End of Year	<u>\$1,044,431</u>	<u>(\$42,390)</u>	<u>(\$7,938)</u>	<u>\$994,103</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances - Total Governmental Funds (\$210,375)

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

Governmental funds report capital outlays as expenditures.

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

Depreciation (10,613)

Revenues in the statement of activities that do not provide
current financial resources are not reported as revenues in
the funds. 196,179

Some expenses reported on the statement of activities,
such as compensated absences do not require
the use of current financial resources and therefore
are not reported as expenditures.

Compensated Absences 36,885

Change in Net Assets of Governmental Activities \$12,076

See accompanying notes to the basic financial statements.

HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Agency</u>
Assets:	
Equity In Pooled Cash and Cash Equivalents	<u>\$13,012</u>
Liabilities:	
Undistributed Monies	<u>13,012</u>
Total Liabilities	<u><u>\$13,012</u></u>

See accompanying notes to the basic financial statements.

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**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

1. DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Center also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental type activities. The Center does not have any business-type funds. The more significant of the Center's accounting policies are described below.

A. Reporting Entity

The Center operates under a locally elected board form of government consisting of five members elected at-large for staggered four year terms. The Center has twenty-five support staff employees and thirty-four 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 BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3. Jointly Governed Organizations

The Center is associated with two jointly governed organizations, the Western Ohio Computer Organization and the Ohio-Hi Point Joint Vocational School. Information about these organizations is presented in Note 12.

4. Insurance Pools:

The Center is associated with three insurance pools: the Hardin County School employees' Health and Welfare Benefit Plan and Trust, the Ohio Association of School Business Officials Workers' Compensation Group Rating Plan, and the Schools of Ohio Risk Sharing Authority. Information about these organizations is presented in Note 13.

5. Fiscal Agent Services:

The Center serves as fiscal agent for the Hardin County Local Professional Development Committee (LPDC). Accordingly, this activity is presented as agency funds within the Center's financial statements.

B. Basis Of Presentation

1. Government-wide Financial Statements

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

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

2. Fund Financial Statements

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

Each major fund is presented in a single column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Fund Accounting

The Center uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of the Center are classified into two categories: governmental and fiduciary.

1. Governmental Funds

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

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

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

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

2. Fiduciary Funds

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

D. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

E. Basis Of Accounting

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Revenues - Exchange and Non-exchange Transactions

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

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

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

2. Deferred Revenue

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

3. Expenses/Expenditures

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

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

F. Budgetary Process

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Cash And Investments

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

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

During fiscal year 2010, investments were limited to STAR Ohio. STAR Ohio is an investment pool managed by the State Treasurer's office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but 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, 2010.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$1,290, which includes \$71 assigned from other funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the Center are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

H. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2010, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

I. Capital Assets

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

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

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Compensated Absences

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

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees with at least fifteen (15) years of service were considered expected to become eligible to retire in accordance with GASB 16.

The total liability for severance payments has been calculated using pay rates in effect at the balance sheet date, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments. No vacation is allowed to be paid at termination or retirement as in the past, because the Board has enforced compliance with the Center's policy.

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

K. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources.

However, claims and judgments, the noncurrent portion of capital leases, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they are due for payment during the current year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Center or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Center did not have any net assets restricted by enabling legislation.

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balance Reserves

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

N. Interfund Transactions

On fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "Interfund Receivables/Payables. Interfund balances within governmental activities are eliminated on the statement of net assets. At June 30, 2010 the General Fund had an Interfund Receivable from non-major funds in the amount of \$18,062 to cover negative cash fund balances.

O. Estimates

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

P. Extraordinary And Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Center and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2010.

Q. Pass-Through Grant Activity

The Center is the primary recipient of grants, which are passed through or spent on behalf of the 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. For fiscal year 2010, these funds included the Special Education Grants to States and Special Education Preschool Grants.

3. DEPOSITS AND INVESTMENTS

Deposits:

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

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Interim monies to be invested or deposited in the following securities:

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;
2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

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

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, Center will not be able to recover the deposits, or collateral securities that are in the possession of an outside party. At fiscal year end, the carrying amount of the Center's deposits was \$742,422 and the bank balance was \$795,803. Of the bank balance \$545,803 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Center's name.

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

B. Investments

As of June 30, 2010, the carrying value of funds on deposit with STAR Ohio was \$610,178. STAR Ohio carries a credit rating of AAA by Standard and Poor's.

As a means of limiting its exposure to fair value losses arising from rising interest rates, and according to state law, the Center's investment policy limits investment portfolio maturities to two years or less.

The Center's policy suggests but does not limit the amount that may be invested in any one issuer. The Center held 100% of its investments in STAR Ohio.

4. STATE FUNDING

The Center is funded by the State Department of Education from State resources and the school districts to which the Center provides services. The school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50 for all 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 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.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

5. RECEIVABLES

Receivables at June 30, 2010, consisted of accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Governmental Type Activities:	
Intergovernmental:	
Public School Preschool	\$ 24,670
Academy Alt Challenge	5,765
IDEA-B	42,835
ECSE	22,810
Total Intergovernmental Receivables	96,080
Contract Services:	
General	397,972
Total Governmental Type Activities	\$494,052

6. CAPITAL ASSETS

A summary in Capital Assets during fiscal year 2010 follows:

	Balance 6/30/2009	Additions	Deductions	Balance 6/30/2010
Governmental Activities				
Furniture and Equipment	\$434,661			\$434,661
Totals at Historical Cost	434,661			434,661
Less Accumulated Depreciation:				
Furniture and Equipment	413,148	\$10,613		423,761
Total Accumulated Depreciation	413,148	10,613		423,761
Governmental Activities				
Capital Assets, Net	\$ 21,513	\$ (10,613)	\$0	\$10,900

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular Instruction	\$ 392
Special	221
Support Service:	
Instructional Staff	2,748
Administration	7,054
Central	198
Total Depreciation Expense	\$10,613

Depreciation is computed on furniture and equipment using the straight-line method over the useful life of five years.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

7. 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 2010, the Center contracted with Schools of Ohio Risk Sharing Authority (SORSA) for general liability insurance with a \$3,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is also protected by SORSA with a building and business personal property limit of \$504,775. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverage from last year.

8. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement, disability and survivor benefits; annual cost-of-living adjustments; and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling toll free (800) 878-5853. It is also posted on the SERS' Ohio website at www.ohsers.org under *Forms and Publications*.

For the fiscal year ending June 30, 2010, plan members were required to contribute 10 percent of their annual covered salary and the Center was required to contribute 14 percent of annual covered payroll. 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 Retirement Board acting with the advice of the actuary, allocated the current employer contribution rate among four funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. The Center's required contribution for pension obligations to SERS for the fiscal year June 30, 2010, 2009 and 2008 was \$58,452, \$39,966 and \$41,615. 90.54% has been contributed for June 30, 2010 and 100% for June 30, 2009 and 2008. \$5,529 represents the unpaid contribution for the fiscal year ended 2010. The balance outstanding is reflected as an intergovernmental payable.

B. State Teachers Retirement Systems

The Center contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for an annuity benefit or a lump-sum payment in addition to the original retirement allowance. A reemployed retiree may alternatively receive a refund of only member contributions with interest before age 65 once employment is terminated.

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

8. DEFINED BENEFIT PENSION PLANS (Continued)

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

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

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

For the fiscal year ended June 30, 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Center was The Center's required contribution for pension obligations for the fiscal years 2010, 2009, and 2008 was \$193,206, \$142,614 and \$140,818; 92.61 percent has been contributed for fiscal year June 30, 2010 and 100.0 has been contributed for fiscal year 2009 and 2008. \$14,270 represents the unpaid contribution for fiscal year 2010. The balance outstanding is reflected as an intergovernmental payable.

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2010 Comprehensive Annual Financial Report will be available after December 31, 2009. Additional information or copies of STRS Ohio's 2010 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling toll-free (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

9. POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

In addition to a cost-sharing multiple-employer defined benefit pension plan, the School Employees Retirement System of Ohio (SERS) administers two post-employment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code (ORC) 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the less of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2009 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal year 2009, the actuarially required allocation was .75%. The Center contributions for the years ended June 30, 2010, 2009, and 2007 were \$658, \$3,297, and \$2,998. 91.30 percent has been contributed for fiscal year June 30, 2010 and 100% has been contributed for fiscal years 2009, and 2008.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Health Care Plan

ORS 3309.375 and 3309.69 permit SERS to offer health care benefits to eligible retirees and beneficiaries. SERS' Retirement Board reserves the right to change or discontinue any health plan or program. SERS offers several types of health plans from various vendors, including HMO's PPO's and traditional indemnity plans. A prescription drug program is also available to those who elect health coverage. SERS employs two third-party administrators and a pharmacy benefit manager to manage the self-insurance and prescription drug plans, respectively.

The ORS provides the authority to fund SERS' post-employment benefits through employer contributions. Active members do not make contributions to the post-employment benefit plans.

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105 (e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14% contribution to the Health Care Fund. For the fiscal year ended June 30, 2009, the health care allocation was 4.16%. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of the total statewide SERS-covered payroll for health care surcharge. For fiscal year 2009, the minimum compensation level was established at \$35,800. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. The Center contributions assigned to health care for the years ended June 30, 2010, 2009, and 2008 were \$27,400, \$18,290 and \$18,990, respectively. 90.5 percent has been contributed for the fiscal year 2010 and 100 percent has been contributed for the fiscal years 2009 and 2008.

The SERS Retirement Board establishes the rules for the premiums paid by the retirees for health care coverage for themselves and their dependents or for their surviving beneficiaries. Premiums vary depending on the plan selected, qualified years of service, Medicare eligibility, and retirement status.

The financial reports SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800)878-5853. It is also posted on SERS' website at www.ohsers.org under **Employers/Audit Resources**.

B. State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of a Defined Benefit, a self-directed Defined Contribution, and a Combined Plan that is a hybrid of Defined Benefit Plan and the Defined Contribution Plan.

Ohio law authorizes STRS to offer a cost-sharing, multiple-employer health care plan. STRS provides access to health care coverage to eligible retirees who participated in the Defined Benefit or Combined Plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

9. POSTEMPLOYMENT BENEFITS (Continued)

Pursuant to the 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care cost in the form of a monthly premium.

STRS Ohio issues a stand-alone financial report. Interested parties can view the most recent Comprehensive Annual Financial Report by visiting www.strsoh.org or by requesting a copy by calling toll-free 1-888-227-7877.

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14% employer contribution rate, 1% of covered payroll was allocated to post-employment health care. The 14% employer contribution rate is the maximum rate establish under Ohio Law. The Center contributions for the fiscal years ended June 30, 2010, 2009, and 2008 were \$14,833, \$10,879, and \$10,832. 92.9 percent has been contributed for the fiscal year 2010 and 100 percent has been contributed for the fiscal years 2009 and 2008.

10. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining sick leave components are derived from negotiated agreements and State laws.

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. Unused vacation upon termination or retirement is not paid.

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.

11. LONG-TERM LIABILITIES

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

	Principal Outstanding 06/30/09	Additions	Reductions	Principal Outstanding 06/30/10	Amounts Due In One Year
Governmental Activities:					
Compensated Absences	\$57,510		\$36,885	\$20,625	
Total Governmental Activities					
Long-Term Liabilities	\$57,510	\$0	\$36,885	\$20,625	\$0

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

12. JOINTLY GOVERN ORGANIZATIONS

A. Western Ohio Computer Organization (WOCO)

The Center is a participant in WOCO, which is a computer consortium. WOCO is an association of public Centers 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. Each of the governments of these districts supports WOCO, based upon a per pupil charge dependent on the software package utilized. In accordance with GASB Statement No. 14, the Center does not have an equity interest in WOCO, as the residual interest in net resources of the joint venture upon dissolution is not equivalent to an equity interest. WOCO is governed by a board of directors consisting of the superintendents of the member school districts and the degree of control is limited to the representation of the board. Financial information can be obtained from Donn Walls, 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.

13. INSURANCE POOLS

A. Hardin County Employees' Health 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 Homes, who serves as Director, 9525 T.R. 50th director at 220 East Columbus Street, P. O. Box 735, Kenton, Ohio 44326

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

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

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

13. INSURANCE POOLS (Continued)

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 GRP.

Each year, participants pay an enrollment fee to the GRP to cover the cost of administering the program.

C. Schools of Ohio Risk Sharing Authority

The Center participates in the Schools of Ohio Risk Sharing Authority (SORSA), a protected self-insurance pool created and administered under the authority of Ohio Revised Code 2744. The SORSA is an incorporated nonprofit association of its members which enables the participants to provide for a formalized joint self-insurance pool and to assist members, including the Center, to present and reduce losses and injuries to Center property and persons and program for maintaining adequate insurance protection and provides risk management programs and other administrative services. Member contributions are based on actuarially determined rates and are allocated to a self-insurance pool (for claims and assessments), reinsurance coverage (for catastrophic losses), and a third party administrator (to handle claims and administrative expenses). The Third Party Administrator is Avizent Service Company. Financial information can be obtained from Ohio Schools Risk Sharing Authority, Inc., 8050 North High Street, Suite 160, Columbus, OH 43235-6483.

14. ACCOUNTABILITY

Four deficit fund balances resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur. At June 30, 2009, the following funds had deficit fund balances.

ECE Preschool	\$29,275
Hardin County Academy Alternative Challenge	2,997
ECSE	12,836
IDEA	<u>42,390</u>
	<u>\$87,498</u>

15. CONTINGENCIES

The Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Center at June 30, 2010.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

16. SUBSEQUENT EVENTS

On September 30, 2010, the Center entered into a contract with the Governing Authority of the Striving to Engage Potential (STEP) Community School to become their sponsor. The Community School is a newly formed charter conversion school whose mission is to provide a meaningful educational alternative for those students who are credit deficient and considered "at risk." These students will be provided curriculum that meets the students' specific needs while tying to the state standards. An effort will be made to provide each student with HQT teachers to support the curriculum. The STEP Community School will be reported as a discrete component unit of the Hardin County Educational Service Center beginning with the next fiscal year.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget Over (Under)</u>
Revenues:				
Intergovernmental	\$258,665	\$490,865	\$489,082	(\$1,783)
Earnings on Investments	4,327	4,327	1,290	(3,037)
Tuition and Contract Services	555,379	1,579,779	1,576,247	(3,532)
Miscellaneous Revenue	17,465	78,620	110,190	31,570
Total Revenues	<u>835,836</u>	<u>2,153,591</u>	<u>2,176,809</u>	<u>23,218</u>
Expenditures:				
Current:				
Instruction:				
Regular	42,458	134,583	87,213	47,370
Special	333,766	388,416	385,746	2,670
Support Services:				
Pupils	963,602	936,102	923,369	12,733
Instructional Staff	244,605	260,464	220,602	39,862
Board of Education	15,944	23,994	19,661	4,333
Administration	240,099	234,199	206,958	27,241
Fiscal	150,581	161,081	160,692	389
Operation and Maintenance	26,821	30,671	22,432	8,239
Pupil Transportation		300	300	
Central	148,215	140,525	112,321	28,204
Extracurricular Activities	1,067	2,500	2,023	477
Total Expenditures	<u>2,167,158</u>	<u>2,312,835</u>	<u>2,141,317</u>	<u>171,518</u>
Excess of Revenues Over Expenditures	<u>(1,331,322)</u>	<u>(159,244)</u>	<u>35,492</u>	<u>194,736</u>
Other Financing Sources (Uses):				
Refund of Prior Year Receipts	(18,045)			
Operating Transfer In	2,000			
Operating Transfers Out	(13,175)	(13,175)		13,175
Total Other Sources (Uses)	<u>(29,220)</u>	<u>(13,175)</u>		<u>13,175</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(1,360,542)</u>	<u>(172,419)</u>	<u>35,492</u>	<u>207,911</u>
Fund Balance at Beginning of Year	1,223,017	1,223,017	1,223,017	
Prior Year Encumbrances Appropriated	<u>60,916</u>	<u>60,916</u>	<u>60,916</u>	
Fund Balance at End of Year	<u>(\$76,609)</u>	<u>\$1,111,514</u>	<u>\$1,319,425</u>	<u>\$207,911</u>

See accompanying notes to supplementary information.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BASIS) AND ACTUAL
IDEA FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$543,165	\$598,069	\$555,234	(\$42,835)
Total Revenues	<u>543,165</u>	<u>598,069</u>	<u>555,234</u>	<u>(42,835)</u>
Expenditures:				
Current:				
Instruction:				
Special	591,210	575,390	530,277	45,113
Support Services:				
Administration	1,485	1,485	1,485	
Fiscal		15,820	15,820	
Total Expenditures	<u>592,695</u>	<u>592,695</u>	<u>547,582</u>	<u>45,113</u>
Excess of Revenues (Under) Expenditures	<u>(49,530)</u>	<u>5,374</u>	<u>7,652</u>	<u>2,278</u>
Fund Balance at Beginning of Year	(12,199)	(12,199)	(12,199)	
Prior Year Encumbrances Appropriated	<u>6,825</u>	<u>6,825</u>	<u>6,825</u>	
Fund Balance at End of Year	<u><u>(\$54,904)</u></u>	<u><u>\$0</u></u>	<u><u>\$2,278</u></u>	<u><u>\$2,278</u></u>

See accompanying notes to supplementary information.

**EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

BUDGETARY PROCESS

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

BUDGETARY BASIS OF ACCOUNTING

While the Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for each major governmental fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

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

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

Net Change in Fund Balance:	General	IDEA
Budget Basis	\$ 35,492	\$7,652
Adjustments:		
Changes due to Revenue Accruals	(126,650)	(12,069)
Changes due to Expenditure Accruals	(92,204)	(25,059)
Encumbrances	23,842	
GAAP Basis	<u>(\$159,520)</u>	<u>(\$29,476)</u>

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Expenditures
UNITED STATES DEPARTMENT OF EDUCATION			
<i>(Passed through Ohio Department of Education)</i>			
Special Education Cluster:			
Special Education Grants to States	84.027	\$555,234	\$547,582
Promoting Social and Emotional Competence in Young Children	84.173		900
Special Education Preschool Grants	84.173	16,350	18,602
Total Special Education Preschool Grants		<u>16,350</u>	<u>19,502</u>
Special Education Preschool Grants - Recovery Act	84.392	6,046	9,027
Total Special Education Cluster		<u>577,630</u>	<u>576,111</u>
School Improvement Subsidy A Title 1	84.010	7,100	
Javits Gifted and Talented Students Education Grant Program	84.206		3,000
School Improvement Grants	84.377		1,418
Total United State.Department of Education		<u>584,730</u>	<u>580,529</u>
Total Federal Financial Assistance		<u>\$584,730</u>	<u>\$580,529</u>

The accompanying notes to this schedule are an integral part of this schedule.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Hardin County Educational Service Center's (the Center's) federal award programs' receipts and disbursements. The Schedule has been prepared on the cash basis of accounting.

NOTE B – FEDERAL AWARDS ADMINISTERED FOR OTHER GOVERNMENTS

The Center applies for and administers grants on behalf of member school districts. The Center reports these grants on their Schedule of Federal Awards Receipts and Expenditures and they are subject to audit during the Center's annual audit according to the Single Audit Act (A-133). Awards which were reported by the Center which benefit member districts are as follows:

District	FY 10 Award Amount IDEA Part B	FY 10 Award Amount IDEA Preschool	FY 10 Award Amount IDEA Preschool ARRA
Hardin Northern Local School District	\$ 81,298	\$ 2,511	\$ 741
Ridgemont Local School District	108,496	6,103	967
Riverdale Local School District	177,241	2,586	1,489
Upper Scioto Valley Local School District	159,834	4,665	1,313
Ada Exempted Village School District		2,639	1,355
	\$526,869	\$18,504	\$5,865



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

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

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin County Educational Service Center, Hardin County, (the Center) as of and for the fiscal year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that material financial statement misstatements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2010-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We did note certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated March 16, 2011.

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

We intend this report solely for the information and use of management, Board of Education, and federal awarding agencies and pass-through entities and others within the Center. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

March 16, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Board of Education:

Compliance

We have audited the compliance of the Hardin County Educational Center (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect Hardin County Educational Service Center's major federal programs for the fiscal year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal programs. 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 included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Hardin County Educational Service Center complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the fiscal year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that, while not affecting our opinion on compliance, OMB Circular A-133 requires us to report. The accompanying schedule of findings lists this instance as Finding 2010-002.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program, to determine our auditing procedures for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency, described in the accompanying schedule of findings as item 2010-002. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a federal program compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

We also noted matters involving federal compliance or internal control over federal compliance not requiring inclusion in this report, that we reported to the Center's management in a separate letter dated March 16, 2011.

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



Dave Yost
Auditor of State

March 16, 2011

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	Yes
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	Yes
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: CFDA #84.027: Special Education Grants to States CFDA #84.173: Special Education Preschool Grants CFDA 84.392: ARRA Special Education Preschool Grants, Recovery Act
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2010-001

Significant Deficiency

The Hardin County Educational Service Center did not properly classify various assets, liabilities, revenues and expenditures on the 2010 financial statements. The following errors were noted on the Center's annual reports:

- The General Fund intergovernmental payable and tuition and contract services revenue was overstated by \$28,965 due to the actual costs calculated for excess costs being less than the original estimate charged to various school districts.
- The IDEA Fund and Other Governmental Funds intergovernmental payable and intergovernmental expenditure accounts were overstated by \$8,977 and \$1,753, respectively, due to the use of estimates in the calculation of the liability instead of actual disbursements made after year-end.
- The Center received a \$22,993 grant payment for the Public Schools Preschool Fund in August 2010, which is within the 60 day available period. The receipt was reported as a deferred revenue on the financial statements instead of intergovernmental revenue, which caused deferred revenue for the Other Governmental Funds to be overstated and intergovernmental revenue to be understated.

The adjustments are reflected on the accompanying financial statements. The Treasurer should review the compiled financial statements for proper posting and use due care in preparation of the annual reports to provide for proper and accurate presentation of the Center' financial activity.

Official's Response:

See page 48.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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Finding Number	2010-002
CFDA Title and Number	Special Education Grants to States #84.027 Special Education Preschool Grants, CFDA #84.173 Special Education Preschool Grants – Recovery Act, CFDA #84.392
Federal Award Number / Year	2010
Federal Agency	U.S. Department of Education
Pass-Through Agency	Ohio Department of Education

Noncompliance and Significant Deficiency

34 CFR 300.320 requires the Individualized Education Plan (IEP) for each child should include (1) a statement of the child’s present level of academic achievement, (2) a statement of measurable annual goals, (3) a description of how the child’s progress toward meeting annual goals will be measured and when the periodic reports will be provided, (4) a statement of the special education and related services and supplementary aids and services, (5) an explanation to the extent, if any, to which the child will not participate with nondisabled children, (6) a statement of any individual appropriate accommodations that are necessary to measure the academic achievement and functional performance of the child, and (7) the projected date for the beginning of the services and modifications, and the anticipated frequency, location, and duration of those services and modifications.

Three of the twenty-five (12%) of the IEP files tested did not contain all of the elements listed above. These errors were related to the students' files not containing the initiation date and duration date for all of the specialized services.

The Center should implement control procedures to provide that the IEP forms are completed and contain the required elements to prevent possible loss of grant funding.

Official’s Response:

See page 48.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 § .315 (C)
JUNE 30, 2010**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2010-001	Administration of the Hardin County Educational Service Center is in the process of implementing revised fiscal year-end purchasing and accounts payable procedures which will help minimize the use of estimates when compiling financial statements. The Treasurer will assist the independent accounting firm that will compile the financial statements to insure accuracy in reporting.	March 23, 2011	Krista Hart, Treasurer
2010-002	The Hardin County ESC Special Education Director has implemented a checklist detailing all information to be contained in the IEP. The checklist has been distributed to the special education representative for each district to be used in preparing IEPs to insure that each form is complete and contains the required elements.	March 23, 2011	Jill Simmons, Special Education Director



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HARDIN EDUCATIONAL SERVICE CENTER

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 5, 2011**