



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

Educational Service Center
Hardin County
One Courthouse Square, Suite 50
Kenton, Ohio 43326

To the Board of Education:

We have audited the accompanying general-purpose financial statements of the Educational Service Center, Hardin County, (the Center) as of and for the year ended June 30, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Educational Service Center, Hardin County, as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2000 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

Jim Petro
Auditor of State

January 13, 2000

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COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Fiduciary			Account Groups		Totals (Memorandum Only)
	Governmental Fund Types Fund Type			General	General	
	General	Special Revenue	Agency	Fixed Assets	Long-Term Obligations	
Assets and Other Debits:						
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$837,966	\$104,306	\$314,461	\$0	\$0	\$1,256,733
Receivables:						
Accounts	45,936	0	0	0	0	45,936
Intergovernmental	14,326	562	0	0	0	14,888
Prepaid Items	7,362	728	0	0	0	8,090
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	135,365	0	135,365
Other Debits:						
Amount to be Provided from General Government Resources	0	0	0	0	75,545	75,545
Total Assets and Other Debits	<u>905,590</u>	<u>105,596</u>	<u>314,461</u>	<u>135,365</u>	<u>75,545</u>	<u>1,536,557</u>
Liabilities, Fund Equity and Other Credits:						
Liabilities:						
Accounts Payable	113,250	5,019	0	0	0	118,269
Accrued Wages and Benefits	112,304	12,814	0	0	28,925	154,043
Compensated Absences Payable	8,033	0	0	0	0	8,033
Intergovernmental Payable	17,567	1,458	0	0	4,353	23,378
Capital Leases Payable	0	0	0	0	42,267	42,267
Undistributed Monies	0	0	314,461	0	0	314,461
Total Liabilities	<u>251,154</u>	<u>19,291</u>	<u>314,461</u>	<u>0</u>	<u>75,545</u>	<u>660,451</u>
Fund Equity and Other Credits:						
Investment in General Fixed Assets	0	0	0	135,365	0	135,365
Fund Balance:						
Reserved for Encumbrances	6,164	32,972	0	0	0	39,136
Reserved for Prepaid Items	7,362	728	0	0	0	8,090
Unreserved	640,910	52,605	0	0	0	693,515
Total Fund Equity and Other Credits	<u>654,436</u>	<u>86,305</u>	<u>0</u>	<u>135,365</u>	<u>0</u>	<u>876,106</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$905,590</u>	<u>\$105,596</u>	<u>\$314,461</u>	<u>\$135,365</u>	<u>\$75,545</u>	<u>1,536,557</u>

The notes to the financial statements are an integral part of this statement.

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Governmental Fund Types</u>		<u>Totals (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	
Revenues:			
Intergovernmental	\$745,354	\$350,860	\$1,096,214
Interest	52,798	0	52,798
Tuition and Fees	832,853	0	832,853
Customer Services	71,769	0	71,769
Miscellaneous	57,200	7,518	64,718
Total Revenues	<u>1,759,974</u>	<u>358,378</u>	<u>2,118,352</u>
Expenditures:			
Current:			
Instruction:			
Regular	20,056	0	20,056
Special	628,363	3,415	631,778
Support Services:			
Pupils	405,083	87,487	492,570
Instructional Staff	139,661	69,084	208,745
Board of Education	12,708	0	12,708
Administration	308,995	12,051	321,046
Fiscal	129,485	564	130,049
Business	1,975	0	1,975
Operation and Maintenance of Plant	734	0	734
Pupil Transportation	0	277	277
Central	8,970	0	8,970
Non-Instructional Services	278	0	278
Extracurricular Activities	2,012	1,559	3,571
Intergovernmental	0	160,501	160,501
Debt Service:			
Principal Retirement	13,968	0	13,968
Interest	2,678	0	2,678
Total Expenditures	<u>1,674,966</u>	<u>334,938</u>	<u>2,009,904</u>
Excess of Revenues Over Expenditures	85008	23440	108448
Fund Balances at Beginning of Year	<u>569428</u>	<u>62865</u>	<u>632,293</u>
Fund Balances at End of Year	<u><u>\$654,436</u></u>	<u><u>\$86,305</u></u>	<u><u>\$740,741</u></u>

The notes to the financial statements are an integral part of this statement.

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**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGET BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	Governmental Fund Types					
	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Tuition and Fees	\$920,300	\$843,677	(\$76,623)	\$0	\$0	\$0
Intergovernmental	696,435	810,595	114,160	361,009	350,298	(10,711)
Interest	30,000	52,798	22,798	0	0	0
Miscellaneous	75,100	60,349	(14,751)	3,818	7,518	3,700
Total Revenues	<u>1,721,835</u>	<u>1,767,419</u>	<u>45,584</u>	<u>364,827</u>	<u>357,816</u>	<u>(7,011)</u>
Expenditures:						
Current						
Instruction:						
Regular	41,598	20,695	20,903	119,813	111,439	8,374
Special	605,216	545,373	59,843	28,546	34,309	(5,763)
Support Services:						
Pupils	498,331	409,733	88,598	191,621	107,543	84,078
Instructional Staff	125,310	146,024	(20,714)	115,307	102,179	13,128
Board of Education	14,558	12,539	2,019	0	0	0
Administration	398,893	345,482	53,411	139,613	21,083	118,530
Fiscal	145,475	125,008	20,467	17,187	5,930	11,257
Operation and Maintenance of Plant	1,650	734	916	1,717	1,717	0
Pupil Transportation	0	0	0	1,114	1,113	1
Central	13,125	8,618	4,507	861	860	1
Community Environment	850	278	572	0	0	0
Extracurricular Activities	1,800	2,012	(212)	1,712	1,609	103
Total Expenditures	<u>1,846,806</u>	<u>1,616,496</u>	<u>230,310</u>	<u>617,491</u>	<u>387,782</u>	<u>229,709</u>
Excess of Revenues Over (Under) Expenditures	<u>(124,971)</u>	<u>150,923</u>	<u>275,894</u>	<u>(252,664)</u>	<u>(29,966)</u>	<u>222,698</u>
Other Financing Sources (Uses):						
Refund of Prior Years Expenditures	0	1,780	1,780			0
Advances In	0	41,568	41,568	7,636	3,653	(3,983)
Advances Out	(16,941)	(3,653)	13,288	(14,247)	(41,568)	(27,321)
Operating Transfers Out	0	0	0	(93,583)	0	93,583
Total Other Financing Sources (Uses)	<u>(16,941)</u>	<u>39,695</u>	<u>56,636</u>	<u>(100,194)</u>	<u>(37,915)</u>	<u>62,279</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(141,912)</u>	<u>190,618</u>	<u>332,530</u>	<u>(352,858)</u>	<u>(67,881)</u>	<u>284,977</u>
Fund Balances at Beginning of Year	625,218	625,218	0	99,655	99,655	0
Prior Year Encumbrances Appropriated	15,966	15,966	0	17,214	17,214	0
Fund Balances at End of Year	<u><u>\$499,272</u></u>	<u><u>\$831,802</u></u>	<u><u>\$332,530</u></u>	<u><u>(\$235,989)</u></u>	<u><u>\$48,988</u></u>	<u><u>\$284,977</u></u>

The notes to the financial statements are an integral part of this statement.

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$920,300	\$843,677	(\$76,623)
1,057,444	1,160,893	103,449
30,000	52,798	22,798
78,918	67,867	(11,051)
<u>2,086,662</u>	<u>2,125,235</u>	<u>38,573</u>
161,411	132,134	29,277
633,762	579,682	54,080
689,952	517,276	172,676
240,617	248,203	(7,586)
14,558	12,539	2,019
538,506	366,565	171,941
162,662	130,938	31,724
3,367	2,451	916
1,114	1,113	1
13,986	9,478	4,508
850	278	572
3,512	3,621	(109)
<u>2,464,297</u>	<u>2,004,278</u>	<u>460,019</u>
<u>(377,635)</u>	<u>120,957</u>	<u>498,592</u>
0	1,780	1,780
7,636	45,221	37,585
(31,188)	(45,221)	(14,033)
<u>(93,583)</u>	<u>0</u>	<u>93,583</u>
<u>(117,135)</u>	<u>1,780</u>	<u>118,915</u>
(494,770)	122,737	617,507
724,873	724,873	0
33,180	33,180	0
<u>\$263,283</u>	<u>\$880,790</u>	<u>\$617,507</u>

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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999

1. DESCRIPTION

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The general-purpose financial statements (GPFS) 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 most 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 four support staff employees and thirty-six certified teaching personnel that provide services to the local, city, and exempted village school districts.

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

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.

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 are presented in Note 15 to the general purpose financial statements.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

4. Insurance Pools:

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

Information about these organizations are presented in Note 16 to the general purpose financial statements.

5. Fiscal Agent Services:

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

The Center has a contract with the Auglaize County Educational Service Center to provide Treasurer consulting services and on July 16, 1999, the Center entered into a contract with Riverdale Local Board of Education, Hardin County, to provide Treasurer's and Assistant Treasurer's services to the School District.

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

B. Fund Accounting

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

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

1. Governmental Fund Types:

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

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

Special Revenue Funds - Special Revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. The Center had the following significant Special Revenue Funds:

Public School Preschool Fund - This fund receives State grants for the Ridgemont Local School District preschool in Mount Victory, Ohio, and the Upper Scioto Valley Local School District preschool in Roundhead, Ohio.

Title VI-B Flow Thru - This fund receives Federal grants for the special education of students in kindergarten through twelve.

Preschool Disabilities Fund - This fund receives Federal grants for the special education of preschool students at Ridgemont Local School District preschool in Mount Victory, Ohio, and the Upper Scioto Valley Local School District preschool in Roundhead, Ohio.

2. Fiduciary Fund Types:

Fiduciary funds are used to account for assets held by the Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The following is the Center's fiduciary fund types:

The Center's fiduciary fund consists of several agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Account Groups:

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting (Continued)

3. Account Groups: (Continued)

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

The modified accrual basis of accounting is followed for the governmental and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. The available period for the Center is sixty days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: grants, investment earnings, tuition fees, and customer services.

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

D. Budgetary Process

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Process (Continued)

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

1. Appropriations:

The annual appropriation resolution is legally enacted by the Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Center's Board. The Center may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, consistent with statutory provisions.

2. Encumbrances:

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

3. Lapsing of Appropriations:

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

E. Cash and Cash Equivalents

To improve cash management, all cash received by the Center is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short term investments. Individual fund integrity is maintained through Center's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet. During fiscal year 1999, investments were limited to a repurchase agreement and STAR Ohio. All investments of the Center had a maturity of two years or less. Investments are stated at cost or amortized cost. Investment earnings are allocated as authorized by State statute.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Cash and Cash Equivalents (Continued)

The Center has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during the fiscal year 1999. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments with the State to pool their funds for investment purposes. 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, 1999.

Under existing Ohio statutes all investment earnings are assigned to the General Fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the General Fund during fiscal year 1999 amounted to \$52,798, which includes \$17,562 assigned from other Center funds.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 1999, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

G. Estimates

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

H. Fixed Assets and Depreciation

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

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

I. Intergovernmental Revenues

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Intergovernmental Revenues (Continued)

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

Entitlements

General Fund

State Foundation Program

Non-Reimbursable Grants

Special Revenue Funds

Education Management Information Systems

Public School - Preschool

Eisenhower

VI-B Flow Thru

Drug Free

Preschool Disability

Workforce 2000 and Externship - Teachers in the Workplace

Grants and entitlements amounted to approximately 53 percent of the Center's operating revenue during the 1999 fiscal year.

J. Compensated Absences

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

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

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

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

K. Accrued Liabilities and Long-term Obligations

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Accrued Liabilities and Long-term Obligations (Continued)

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

L. Interfund Transactions

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

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Fund Balance Reserves

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

N. Flow-Through Grants

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

O. Total Columns on General Purpose Financial Statements

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

3. BUDGETARY BASIS OF ACCOUNTING

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

3. BUDGETARY BASIS OF ACCOUNTING (Continued)

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

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

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

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses
Governmental Fund Types**

	General	Special Revenue
Budgetary Basis	\$190,618	(\$67,881)
<u>Increase (Decrease) Due To:</u>		
Revenue Accruals	(50,793)	(3,091)
Expenditure Accruals	(48,653)	165,406
Encumbrances Outstanding (Budget Basis) at Year End	(6,164)	(70,994)
GAAP Basis	\$85,008	\$23,440

4. ACCOUNTABILITY AND COMPLIANCE

The fiscal officer did not properly certify funds as required by Ohio Rev. Code Section 5705.41(D).

5. EQUITY IN POOLED CASH AND INVESTMENTS

The Treasurer is responsible for selecting depositories and investing funds. State statutes classify monies held by the Center into three categories.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

5. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

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

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or 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 student loan marking association. All federal agency services 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 repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked 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 division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAROhio);

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Center, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

5. EQUITY IN POOLED CASH AND INVESTMENTS (Continued)

Deposits: At fiscal year end, the carrying amount of the Center's deposits was \$(80,572) and the bank balance was \$52,629. Of the bank balance, \$52,629 was covered by federal depository insurance.

Investments: The Center's investments are to be categorized to give an indication of the level of risk assumed by the Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Center or its agent in the Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Center's name. STAR Ohio (an investment pool operated by the Ohio State Treasurer) is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. At year end, the Center's investment in STAROhio had a market value of \$898,000.

	Category 3	Uncategorized	Reported Value	Fair Value
Repurchase Agreement	\$898,000	\$	\$898,000	\$898,000
STAR Ohio	_____	439,205	439,205	439,000
Total	<u>\$898,000</u>	<u>\$439,205</u>	<u>\$1,337,205</u>	<u>\$1,337,205</u>

A reconciliation between the classifications of pooled cash and investments on the Combined Balance Sheet (per GASB Statement No.9) and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$1,256,733	\$0
Cash on Hand	(100)	
Investments of the Cash		
Cash Management Pool:		
STAROhio	(439,205)	439,205
Repurchase Agreement	(898,000)	898,000
GASB Statement 3	<u>(\$80,572)</u>	<u>\$1,337,205</u>

6. STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by the agreed upon deduction of \$6.50. 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 \$34. This amount is provided from State resources.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

6. STATE FUNDING (Continued)

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

7. RECEIVABLES

Receivables at June 30, 1999 consisted of accounts, and intergovernmental grants, and contracts. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of receivables is as follows:

	General Fund Amounts	Special Revenue Fund Amounts
Intergovernmental Receivables	\$14,326	\$562
Accounts Receivable	45,936	0
Total Receivable	\$60,262	\$562

8. FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 1999 follows:

Classification	Balance at June 30, 1998	Agency Fund Adjustments	Adjusted June 30, 1998 Balance	Additions	Deletions	Balance at June 30, 1999
Furniture, Fixtures, and Equipment	\$206,229	(\$91,233)	\$114,996	\$20,369	\$ -	\$135,365

The Center previously included assets belonging to agencies for which the Center is the fiscal agent. The above agency fund adjustment represents those assets that have been removed from the Center's fixed asset listing.

9. 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 1999, the Center contracted with Nationwide Insurance Company for general liability insurance with a \$2,000,000 single occurrence limit and a \$5,000,000 aggregate. Property is protected by Westfield Insurance Company and holds a \$500 deductible. Settled claims have not exceeded this commercial coverage in any of the past three years and there has been no significant reduction in insurance coverages from last year.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

9. RISK MANAGEMENT (Continued)

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

For fiscal year 1999, the Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the Center by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the Plan. Each participant pays its workers' compensation premium to the State based on the rate for the Plan rather than its individual rate. Total savings are then calculated and each participant's individual performances is compared to the overall savings percent of the Plan.

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

10. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides basic retiree benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information for SERS. That report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (740)222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14 percent of the annual covered payroll. A portion of the School District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion to fund pension obligations for fiscal year 1999. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

10. DEFINED BENEFIT PENSION PLANS (Continued)

The Center's required obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 was \$52,087, \$59,632, and \$59,927, respectively; 87.6 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997.

\$6,942 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

The Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771 or by calling (740)227-4090.

Contribution requirements and the contributions actually made for the fiscal year ended June 30, 1999, were 9.3 percent of covered payroll for members and 14 percent for employers; 6 percent was the portion used to fund pension obligations for fiscal year 1999. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. The contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Center's required contribution for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$157,821, \$166,244 and \$151,183 respectively; 87.6 percent has been contributed for fiscal year 1999 and 100 percent for the fiscal years 1998 and 1997. \$9,618 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

C. Social Security Tax

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 1999, one board of education member has elected Social Security. The Board's liability is 6.2 percent of wages paid.

11. POSTEMPLOYMENT BENEFITS

The Center provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certificated employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are funded on a pay-as-you-go basis.

For STRS, all benefit recipients are required to pay a portion of health care cost in the form of a monthly premium. By Ohio Law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. The board currently allocates employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

11. POSTEMPLOYMENT BENEFITS (Continued)

For the Center, this amount equaled \$41,175 during the 1999 fiscal year. As of July 1, 1998, eligible benefit recipients totaled 91,999. For the year ended June 30, 1997, net health care costs paid by STRS were \$219,224,000.

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

For this fiscal year, employer contributions to fund health care benefits were 6.3 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400.

The surcharge rate added to the unallocated portion of the 14 percent employer contribution rate provides for maintenance of the asset target level for the health care fund. Health care benefits are financed on a pay-as-you-go basis. The target level for the health care reserve is 125% of annual health care expenses. For the year ended June 30, 1998, net health care costs paid by SERS were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998, the Retirement System's net assets available for payment of health care benefits was \$160.3 million. The number of participants currently receiving health care benefits is 50,000. For the District, the amount to fund health care benefits, including the surcharge, equaled \$18,499 during the 1999 fiscal year.

12. EMPLOYEE BENEFITS

A. Compensated Absences

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

B. Health Care Benefits

The Center provides medical, dental, and vision benefits 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.

13. CAPITAL LEASES

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

13. CAPITAL LEASES (Continued)

General fixed assets consisting of equipment have been capitalized in the general fixed assets account group in the amount of \$72,864.

This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in fiscal year 1999 totaled \$13,968 in the governmental funds.

The following is a schedule of future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 1999:

Fiscal Year Ending June 30:	Amounts
2000	\$16,646
2001	16,646
2002	9,640
2003	2,762
Total minimum lease payments	\$45,694
Less: Amount representing interest	3,427
Present Value of net minimum lease payments	\$42,267

14. LONG TERM OBLIGATIONS

The changes in the Center's long-term obligations during fiscal year 1999 were as follows:

	Balance at June 30, 1998	Additions	Deductions	Balance at June 30, 1999
Compensated Absences Payable	\$23,956	\$4,969	\$0	\$28,925
Intergovernmental Payable	6,347	4,353	6,347	4,353
Capital Lease Payable	<u>56,235</u>	<u>0</u>	<u>13,968</u>	<u>42,267</u>
Total General Long Term Obligations	<u>\$86,538</u>	<u>\$9,322</u>	<u>\$20,315</u>	<u>\$75,545</u>

The June 30, 1998 capital lease payable amount has been restated to incorporate a new lease entered into in 1997, which was not previously reported.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
June 30, 1999
(Continued)

15. JOINTLY GOVERNED ORGANIZATION

A. Western Ohio Computer Organization (WOCO)

The Center is a participant in WOCO which is a computer consortium. WOCO is an association of public school districts within the boundaries of Auglaize, Champaign, Hardin, Logan, and Shelby Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member districts. The governing board of WOCO consists of two representatives from each county elected by majority vote of all charter member schools districts within each county plus one representative of the fiscal agent. Financial information can be obtained from Larry Wilberding, Director, at 129 E. Court Street, Sidney, Ohio 45365.

B. Ohio Hi-Point Joint Vocational School District

The Ohio Hi-Point Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 11 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information write to the Ohio Hi-Point Joint Vocational School, Eric Adelsberger, Treasurer, 2280 State Route 540, Bellefontaine, Ohio 43311-9594.

16. INSURANCE POOLS

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

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

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

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

The Center participates in a group rating plan or workers' compensation as established under section 4123.29 of the Ohio Revised Code. The Ohio School Boards Association Workers' Compensation Group Rating Program (WCGRP) was established through the Ohio School Boards Association (OSBA) as a group purchasing pool.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

17. SCHOOL FOUNDATION PROGRAM

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to this Center. During the fiscal year ended June 30, 1999, the Center received \$751,741 of school foundation support for its general fund.

Since the Supreme Court Ruling, numerous pieces of legislation have been passed by the Ohio General Assembly in an attempt to address the issues identified by the Court. The Court of Common Pleas in Perry County has reviewed the new laws, and in a decision issued on February 26, 1999, determined they are not sufficiently responsive to the constitutional issues raised under the "thorough and efficient" clause of the Ohio Constitution. The State has appealed the decision made by the Court of Common Pleas to the Ohio Supreme Court. At this time, the Ohio Supreme Court has not rendered an opinion on this issue. The decision of the Court of Common Pleas in the Perry County has been stayed by the Ohio Supreme Court, and, as such, school districts are still operating under the laws that the Common Pleas Court declared unconstitutional.

As of the date of these financial statements, the School District is unable to determine what effect, if any, this ongoing litigation will have on its future State funding under this program and on its financial operations.

18. CONTINGENT LIABILITIES

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, 1999.

19. YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the Center's operations.

The Center has completed an inventory of computer systems and other equipment necessary to conducting operations and has identified such systems as being financial reporting, payroll, and employee benefits, equipment information system and educational statistics reporting (through the State's Education Management and Information System (EMIS)).

The Center uses the State of Ohio Uniform School Accounting System (USAS) software for its financial reporting, the Ohio Uniform Staff Payroll System for its payroll and employee benefits, and the State's Education Management and Information System (EMIS) for its educational statistics reporting. The Center utilizes the Western Ohio Area Computer Services Cooperative (WOCO), an external service organization to provide these services. The external service organization and the State are responsible for remediating these systems.

The State of Ohio distributes money to the Center in the form of "Foundation" and federal and state grant payments. The State is responsible for remediating these systems.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

June 30, 1999

(Continued)

19. YEAR 2000 ISSUE (Continued)

To the best of management's belief, as of January 13, 2000, the Center experienced no significant interruption of mission critical operations or services related to the Year 2000 issue. However, because of the unprecedented nature of the Year 2000 issue, matters may arise, and parties with whom the Center does business may also experience Year 2000 readiness issues that are as yet, unknown.

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 1999**

Federal Grantor/ Pass Through Grantor Program Title	Federal CFDA Number	Pass Through Entity or Number	Receipts	Disbursements
Hardin County Educational Service Center				
UNITED STATES DEPARTMENT OF LABOR				
(Passed through Ohio Department of Education)				
STW-Workforce 2000	17.249	WK-BE 98	\$11,500	\$14,542
UNITED STATES DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Handicapped Preschool and School Programs - Title VI-B	84.027	6B-SF 97P 6B-SF 99P	61,656 <u>88,338</u>	61,998 <u>55,235</u>
Total Title VI-B			<u>149,994</u>	<u>117,233</u>
Education of the Handicapped Act Preschool Grants	84.173	PG-S1-98P PG-S1-99P	3,653 <u>26,871</u>	8,415 <u>24,748</u>
(Passed through Special Education Regional Resource Center)				
Education of the Handicapped Act	84.173		<u>500</u>	<u>370</u>
Total Preschool Grants			31,024	33,533
Total Special Education Cluster			<u>181,018</u>	<u>150,766</u>
(Passed through Ohio Department of Education)				
Dwight D. Eisenhower Mathematics and Science Education Grants	84.281	MS-S1 96 MS-S1 97C MS-S1 98 MS-S1 99	0 0 0 <u>8,632</u>	3,020 11,750 9,863 <u>0</u>
Total Mathematics and Science Education Grant			8,632	24,633
Drug Free Grants	84.186A	DR-S1-98 DR-S1-99	0 <u>8,523</u>	3,717 <u>5,633</u>
Total Drug Free Grants			8,523	9,350
School Year Training	84.029	PD-A1 98	0	3,944
(Passed through Putnam County Educational Service Center)				
Total School Year Training	84.029		<u>9,341</u>	<u>9,341</u>
			9,341	13,285
TOTAL FEDERAL FINANCIAL ASSISTANCE HARDIN COUNTY EDUCATIONAL SERVICE CENTER			\$219,014	\$212,576
Special Education Regional Resource Center (SERRC)				
UNITED STATES DEPARTMENT OF EDUCATION				
(Passed through Ohio Department of Education)				
Special Education Cluster:				
Handicapped Preschool and School Programs - Title VI-B	84.027	6B-S1 98 6B-S1 99 6B-S1 00	\$40,081 582,167 0	\$138,502 383,929 17,184
(Passed through Franklin County Educational Service Center)				
Handicapped Preschool and School Programs - Title VI-B	84.027		3,500 <u>2,958</u>	2,361 <u>2,958</u>
Total Title VI-B			<u>628,706</u>	<u>544,934</u>
(Passed through Ohio Department of Education)				
Education of the Handicapped Act Preschool Grants	84.173	PG-S3-99P PG-S1-98P PG-S1-97P PG-S1-98P	71,000 10,000 0 <u>0</u>	56,545 9,050 2,512 <u>15,863</u>
Total Preschool Grants			81,000	83,970
Total Special Education Cluster			<u>709,706</u>	<u>628,904</u>
School Year Training	84.029	PD-A1 99	3,135	3,135
Project Life	84.158		6,000	5,870
(Passed through Franklin County Educational Service Center)				
Dwight D. Eisenhower Mathematics	84.281		0 <u>0</u>	81 <u>459</u>
Total Mathematics and Science Education Grant			0	540
TOTAL FEDERAL FINANCIAL ASSISTANCE FOR SERRC			\$718,841	\$638,449
GRAND TOTAL FEDERAL FINANCIAL ASSISTANCE EDUCATIONAL SERVICE CENTER AND SPECIAL EDUCATION REGIONAL RESOURCE CENTER			\$937,855	\$851,025

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

NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
June 30, 1999

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - SPECIAL EDUCATION REGIONAL RESOURCE CENTER (SERRC)

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

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

Educational Service Center
Hardin County
One Courthouse Square, Suite 50
Kenton, Ohio 43326

To the Board of Education:

We have audited the financial statements of the Educational Service Center (the Center), Hardin County, as of and for the year ended June 30, 1999, and have issued our report thereon dated January 13, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 1999-10233-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 1999-10233-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above as item 1999-10233-002, is considered to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Center in a separate letter dated January 13, 2000.

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

Jim Petro
Auditor of State

January 13, 2000



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Educational Service Center
Hardin County
One Courthouse Square, Suite 50
Kenton, Ohio 43326

To the Board of Education:

Compliance

We have audited the compliance of the Educational Service Center, Hardin County [the Center] with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to its major federal program for the year ended June 30, 1999. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Center's management. Our responsibility is to express an opinion on the Center's compliance based on our audit.

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

In our opinion, the Center complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.

Internal Control Over Compliance

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

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

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

Jim Petro
Auditor of State

January 13, 2000

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 1999

SUMMARY OF AUDITOR'S RESULTS

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

SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 §.505
JUNE 30, 1999
(Continued)

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1999-10233-001
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Failure to Properly Certify and Encumber

Ohio Rev. Code Section 5705.41 (D) states that no orders or contracts involving the expenditure of money are to be made unless there is a certificate of the fiscal officer that the amount required for the order or contract has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances.

The following exceptions to this basic requirement are provided by statute:

Then and Now Certificate: This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time that he is completing his certification, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the taxing authority can authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the subdivision or taxing district.

Amounts of less than \$100 for counties, or less than \$1,000 for other political subdivisions, may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

In 63% of the transactions tested the date of the invoice preceded the date of the Treasurer's certificate.

The Center should develop procedures and controls to assure compliance with this requirement.

Finding Number	1999-10233-002
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Financial Statement Reporting

Management is responsible to prepare accurate financial statements and while they may elect to employ others to compile the financial report on their behalf, they are not absolved of the responsibility for the accuracy of the report.

The following internal control weaknesses were noted:

- A. Financial statements should only include those funds for which the Center is accountable. Agency funds which the Center holds in a trustee capacity or for which the Center is a fiscal agent for private organizations or other governmental units, are not required to be budgeted and should not be co-mingled and budgeted with the Center funds. The budgetary information presented on the trial balances included some Agency Funds and did not include all Center funds.
- B. The compilation report contained the audited fiscal year 1998 "Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis)- All Governmental Fund Types". Therefore, every amount presented on the combined statement presented in the financial report was incorrect and misrepresented the financial activity of the Center. The trial balances reflected the correct amounts for the fiscal year 1999 operating statement information.

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 1999
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1999-10233-002 (Continued)
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- C. The cash basis 4502 report had some Agency Funds represented as Special Revenue and General Funds which resulted in numerous reclassifications and adjustments to the financial statements. The Agency Funds did not include all accounts held by the Center in a trustee capacity or where the Center is an agent for private organizations or other governmental units. Failure to properly classify the funds resulted in an overstatement of Center funds on the financial statements and an understatement of 14% in the Agency Fund and also caused material errors to occur in the financial statement accrual amounts. Numerous audit adjustments and reclassifications were required to properly reflect those amounts.

- D. The Center did not have a list of all assets to support the financial statement amount presented for general fixed assets. An asset list was compiled in 1995 when the Center first presented general purpose financial statements, but the list was not updated for asset additions and deletions. Additions were recorded on the financial statements utilizing the total amounts of expenditures with the capital outlay object code, regardless of whether the items were properly classified, met the capitalization criteria, or were the property of the Center instead of other organizations or governmental units for which the Center acts in a fiscal agent capacity. Fixed assets were overstated approximately \$94,000 or 47% on the balance sheet.

- E. Special Education services were provided during the fiscal year to districts for which amounts have not been billed as of January 18, 2000. The amount of the unbilled services were not reflected in the accounts receivable recorded in the financial statements. As a result, the general fund accounts receivable at June 30, 1999 were understated approximately \$44,000 or 200%.

The above listed discrepancies resulted in material misrepresentations in the general purpose financial statements as compiled on behalf of the Center and reported to the Auditor of State's office.

The Uniform School Accounting System (USAS) currently does not specify the accounting treatment for funds held in a fiscal agent relationship which also require separate reporting for each federal grant and each different grant year or have enough different agency funds to account for all agencies for which the Center provides fiscal services. In addition, the School Asset Account System (SAAS) and Equipment Inventory System (EIS) do not allow the Center to account for the fixed assets of the Special Education Regional Resource Center for which the Center is the fiscal agent.

- A. The Center should review all funds to determine that the funds for which the Center is acting in a fiscal agent capacity are not included in the budgetary process for the Center. All funds of the Center should be included in the budgetary process and reported in the budget basis (non-GAAP) portion of the general purpose financial statements. The Center Board may adopt appropriations and modify appropriations for the Agency Funds but the Board minutes should clearly identify those as Agency Funds.

- B. The Center should read the financial statement notes and review the financial statements in the report prepared on their behalf to determine the accuracy of the information reported.

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133 § .505
JUNE 30, 1999
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Finding Number	1999-10233-002 (Continued)
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- C. The Center should contact the Western Ohio Computer Organization (WOCO) and work with them to reassign computer fund numbers for the Agency Funds to allow all agency fund activity to be properly reflected on the cash basis 4502 and eliminate co-mingling activity with the Center's General and Special Revenue funds. If possible, each different agency should have a different agency fund number for better reporting. Different special cost centers could be used to distinguish between different grants and grant years for accurate accounting and reporting for the Special Education Regional Resource Center federal grants which are audited as a part of the Center's federal single audit and included in the Schedule of Federal Awards Expenditures. WOCO should be consulted for all accounting system fund changes. All changes should be performed at the same time and reports of activity for both prior to the change and after the change should be maintained for audit review. Reassigning fund numbers to properly classify all Center activity should eliminate compilation errors due to improper identification of funds.

- D. An asset listing should be retained to support the general fixed assets reported in the general purpose financial statements. Asset additions should be recorded on the general fixed asset list, and should only reflect assets which both belong to the Center and meet the capitalization criteria. Deletions should represent those assets which were approved by the Board for disposal during the fiscal year. The general fixed asset listing should be updated each year and an entire listing maintained for audit review.

- E. Services provided by the Center should be billed in a timely manner and amounts should be reflected on the balance sheet as receivables.



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EDUCATIONAL SERVICE CENTER

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
FEBRUARY 15, 2000**