



Dave Yost • Auditor of State

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Education:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardin County Educational Service Center, Hardin County, Ohio (the Center), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardin County Educational Service Center, Hardin County, Ohio, as of June 30, 2013 and 2012, and the respective changes in cash financial position thereof for the years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Emphasis of Matter

As discussed in Note 3 to the financial statements for the year ended June 30, 2012, the Center has elected to change its basis of accounting and restated prior year fund balances and net assets. We did not modify our opinion regarding this matter.

Other Matters

Supplemental and Other Information

We audited to opine on the Center's financial statements that collectively comprise its basic financial statements.

Management's Discussion & Analysis includes tables of net position/assets, changes in net position/assets, governmental activities, changes in fund cash balances, and cash financial activity of general fund. This information provides additional analysis and is not a required part of the basic financial statements.

The Budgetary Schedules for General Fund and IDEA Fund for the year ended June 30, 2013 also present additional analysis and are not a required part of the basic financial statements.

These tables and schedules are management's responsibility, and derive from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected these tables and schedules to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling these tables and schedules directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and in accordance with auditing standards generally accepted in the United States of America. In our opinion, these tables and schedules are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other than the aforementioned procedures applied to the tables and schedules, we applied no procedures to any other information in Management's Discussion & Analysis and Budgetary Schedules for General Fund and IDEA Fund for the year ended June 30, 2013, and we express no opinion or any other assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

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

Columbus, Ohio

March 4, 2014

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED**

The management's discussion and analysis of the Hardin County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2013, within the limitations of the Center's cash basis of accounting. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the cash basis basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2013 are as follows:

- In total, net cash assets of governmental activities increased \$213,184 which represents a 19.05% increase from 2012.
- General cash receipts accounted for \$411,702 or 16.42% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$2,096,950 or 83.58% of total governmental activities cash receipts of \$2,508,652.
- The Center had \$2,295,468 in cash disbursements related to governmental activities; \$2,096,950 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$411,702 were adequate to provide for these programs.
- The Center's major governmental funds are the general fund and IDEA fund. The general fund had \$2,132,998 in cash receipts and \$1,937,394 in cash disbursements. During fiscal year 2013, the general fund's fund cash balance increased \$195,604 from \$1,074,895 to \$1,270,499.
- The Center's other major governmental fund is the IDEA fund. The IDEA fund had \$257,921 in cash receipts and \$252,406 in cash disbursements. During fiscal year 2013, the IDEA fund's fund cash balance increased \$5,515 from \$23,766 to \$29,281.

Using these Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Center's cash basis of accounting.

The statement of net position - cash basis and statement of activities - cash basis provide information about the activities of the whole Center, presenting both an aggregate view of the Center's cash basis 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 most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the general fund and IDEA fund are by far the most significant funds, and the only governmental funds reported as major funds.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Reporting the Center as a Whole

Statement of Net Position - Cash Basis and the Statement of Activities - Cash Basis

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 cash basis financial transactions and asks the question, "How did we do financially during 2013?" The statement of net position - cash basis and statement of activities - cash basis answer this question. These statements include *only net position* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net position - cash basis and statement of activities - cash basis, the governmental activities include the Center's programs and services, including instruction and support services.

The Center's statement of net position - cash basis and statement of activities - cash basis can be found on pages 13-14 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 16. Fund financial reports 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 only major governmental funds are the general fund and IDEA fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed 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 cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

However, differences will be apparent when comparing gross receipts and disbursements on the fund financial statements to the statement of activities - cash basis due to advances between governmental funds being eliminated for reporting in the statement of activities - cash basis. The governmental fund statements can be found on pages 15-16 of this report.

Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. Only the cash held at year end is reported in a separate statement of cash basis position and net cash position - fiduciary fund assets on page 17. This cash is excluded from the Center's other financial statements because the cash cannot be utilized by the Center to finance its operations.

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the cash basis basic financial statements can be found on pages 19-41 of this report.

The Center as a Whole

Recall that the statement of net position - cash basis provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net cash position for 2013 and 2012.

	Net Cash Position	
	Governmental Activities 2013	Restated Governmental Activities 2012
Assets:		
Equity in pooled cash and cash equivalents	\$1,332,157	\$1,118,973
Net Cash Position:		
Restricted	59,858	45,991
Unrestricted	1,272,299	1,072,982
Total net cash position	\$1,332,157	\$1,118,973

Over time, net cash position can serve as a useful indicator of a government's financial position. At June 30, 2013, the Center's total net cash position was \$1,332,157.

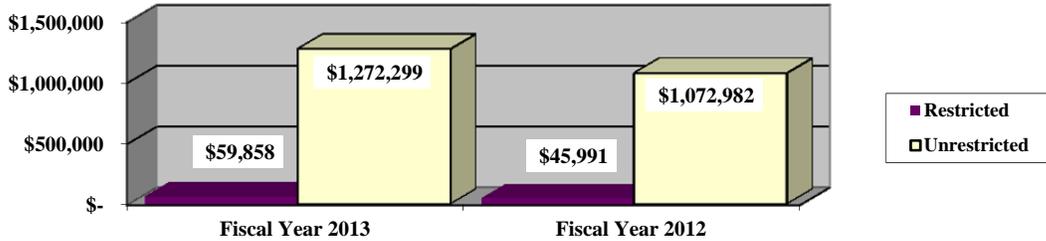
A portion of the Center's net cash position, \$59,858, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash position of \$1,272,299 may be used to meet the Center's ongoing obligations to students and creditors.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

The graph below presents the Center's governmental activities restricted and unrestricted net cash position for fiscal years 2013 and 2012.

Governmental Activities - Restricted and Unrestricted Net Cash Position



The table below shows the change in net cash assets for fiscal years 2013 and 2012.

Change in Net Cash Position		
	Governmental Activities 2013	Governmental Activities 2012
Cash Receipts:		
Program Cash Receipts:		
Charges for services and sales	\$1,721,296	\$1,602,839
Operating grants and contributions	375,654	757,733
General Cash Receipts:		
Grants and entitlements	403,127	470,554
Investment earnings	1,178	303
Miscellaneous	7,397	35,753
Total Cash Receipts	2,508,652	2,867,182
Cash Disbursements:		
Program Disbursements:		
Instruction:		
Regular	64,180	67,697
Special	928,968	925,367
Support Services:		
Pupil	519,430	696,680
Instructional staff	80,217	119,217
Board of education	17,591	18,606
Administration	193,186	168,166
Fiscal	118,560	170,414
Operations and maintenance	19,988	20,308
Pupil transportation		30
Central	79,960	124,036
Extracurricular activities	1,071	19,075
Intergovernmental	272,317	442,381
Total Cash Disbursements	2,295,468	2,771,977
Change in Net Cash Position	213,184	95,205
Net cash position at beginning of year	1,118,973	1,023,768
Net cash position at end of year	\$1,332,157	\$1,118,973

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Governmental Activities

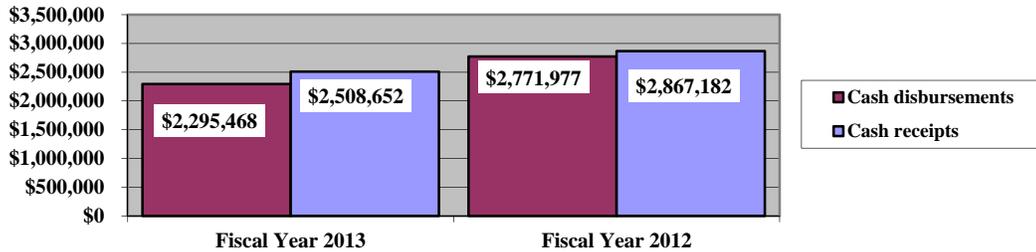
Net cash position of the Center's governmental activities increased \$213,184. Total governmental cash disbursements of \$2,295,468 were offset by program cash receipts of \$2,096,950 and general cash receipts of \$411,702. Program cash receipts supported 91.34% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 68.66% of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$1,028,932 or 44.82% of total governmental cash disbursements for fiscal year 2013.

The graph below presents the Center's governmental activities cash receipts and cash disbursements for fiscal years 2013 and 2012.

Governmental Activities - Cash Receipts and Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

Governmental Activities				
	Total Cost of Services 2013	Net Cost of Services 2013	Total Cost of Services 2012	Net Cost of Services 2012
Program cash disbursements				
Instruction:				
Regular	\$64,180	\$5,305	\$67,697	\$17,680
Special	928,968	91,921	925,367	210,337
Support services:				
Pupil	519,430	57,508	696,680	198,217
Instructional staff	80,217	9,296	119,217	34,223
Board of education	17,591	1,948	18,606	5,294
Administration	193,186	19,925	168,166	42,455
Fiscal	118,560	13,126	170,414	48,486
Operations and maintenance	19,988	2,213	20,308	5,778
Pupil transportation			30	9
Central	79,960	10,453	124,036	35,290
Extracurricular activities	1,071	119	19,075	5,427
Intergovernmental	272,317	(13,296)	442,381	(191,791)
Total cash disbursements	\$2,295,468	\$198,518	\$2,771,977	\$411,405

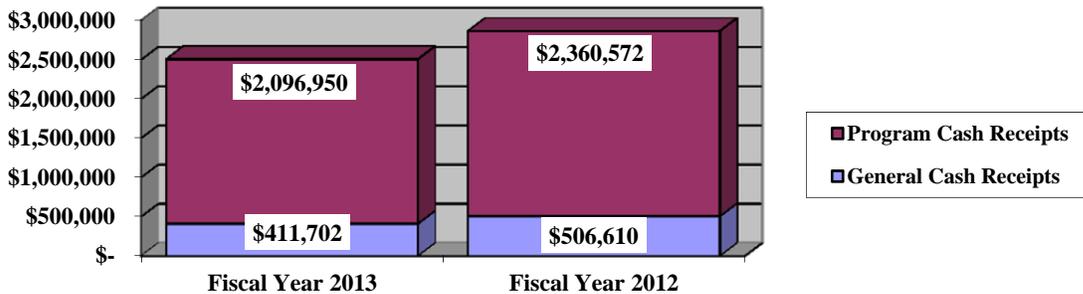
**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

The Center primarily depends upon charges for services provided by member districts; however, dependence upon other general cash receipts for governmental activities is apparent as 11.12% of support services activities are supported through grants and entitlements (including State foundation) and other general cash receipts. For all governmental activities, general cash receipt support is 8.66%.

The graph below presents the Center's governmental activities cash receipts for fiscal years 2013 and 2012.

Governmental Activities - General and Program Cash Receipts



The Center's Funds

The Center's governmental funds reported a combined fund cash balance of \$1,332,157, which is more than last year's total of \$1,118,973. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2013 and 2012.

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Increase</u>	<u>Change</u>
General	\$1,270,499	\$1,074,895	\$195,604	18.20%
IDEA	29,281	23,766	5,515	23.21%
Other Governmental	32,377	20,312	12,065	59.40%
Total	<u>\$1,332,157</u>	<u>\$1,118,973</u>	<u>\$213,184</u>	<u>19.05%</u>

General Fund

The Center's general fund cash balance increased \$195,604. The table that follows assists in illustrating the cash financial activities of the general fund.

	<u>2013 Amount</u>	<u>2012 Amount</u>	<u>Increase (Decrease)</u>	<u>Percentage Change</u>
Cash Receipts:				
Tuition	\$1,664,104	\$1,539,478	\$124,626	8.10%
Contract services	57,192	63,361	(6,169)	(9.74)%
Earnings on investments	1,178	303	875	288.78%
Intergovernmental	403,127	470,554	(67,427)	(14.33)%
Other	7,397	35,753	(28,356)	(79.31)%
Total	<u>2,132,998</u>	<u>2,109,449</u>	<u>23,549</u>	<u>1.12%</u>
Cash Disbursements:				
Instruction	918,973	917,534	1,439	0.16%
Support Services	1,017,350	1,303,608	(286,258)	(21.96)%
Extracurricular activities	1,071	19,075	(18,004)	(94.39)%
Total	<u>\$1,937,394</u>	<u>\$2,240,217</u>	<u>(\$302,823)</u>	<u>(13.52)%</u>

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
UNAUDITED
(Continued)**

Contract services decreased \$6,169 or 9.74% due mainly to less being received from contracts paid by client districts. Tuition increased \$124,626 or 8.10% due mainly to more foundation payments being received. Intergovernmental receipts decreased \$67,427 or 14.33% due to a decrease in state foundation funding in 2013. Support services cash disbursements decreased \$286,258 or 21.96%, due to a general decrease in operating costs.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The Center had no debt obligations outstanding at June 30, 2013.

Current Financial Related Activities

As the preceding information shows, the Center heavily depends on its tuition and intergovernmental payments. The future is not without challenges. Thus, management must diligently plan disbursements, staying carefully within the Center's five-year plan. Additional receipts must not be treated as a windfall to expand programs, but as an opportunity to extend the time horizon of the five-year plan.

In conclusion, the Hardin County Educational Service Center has committed itself to financial excellence for many years. The Center prides itself on providing quality service while at the same time being sensitive to the financial hardships facing its client districts. A sound system of budgeting and internal controls enables the Center to operate efficiently and to meet the financial challenges of the future.

Contacting the Center's Financial Management

The financial report is designed to provide citizens, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money received. Questions about the report may be directed to: Sara Tracey, Treasurer, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326, or email at Treasurer@hardinesc.org.

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2013**

	Primary Government	Component Unit
	Governmental Activities	Hardin Community School
Assets:		
Equity in pooled cash and cash equivalents		\$259,959
Total assets		259,959
Net Cash Position:		
Restricted for:		
State funded programs	\$10,332	
Federally funded programs	49,526	11,875
Other purposes		
Unrestricted	1,272,299	248,084
Total net cash position	\$1,332,157	\$259,959

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

				<u>Net (Disbursements) Receipts and Changes in Net Cash Position</u>	
	<u>Program Cash Receipts</u>			<u>Primary Government</u>	<u>Component Unit</u>
	<u>Cash Disbursements</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Hardin Community School</u>
Governmental Activities:					
Instruction:					
Regular	\$64,180	\$57,075	\$1,800	(\$5,305)	
Special	928,968	760,155	76,892	(91,921)	
Support services:					
Pupil	519,430	461,922		(57,508)	
Instructional staff	80,217	69,871	1,050	(9,296)	
Board of education	17,591	15,643		(1,948)	
Administration	193,186	162,962	10,299	(19,925)	
Fiscal	118,560	105,434		(13,126)	
Operations and maintenance	19,988	17,775		(2,213)	
Central	79,960	69,507		(10,453)	
Extracurricular activities	1,071	952		(119)	
Intergovernmental	272,317		285,613	13,296	
Totals	<u>\$2,295,468</u>	<u>\$1,721,296</u>	<u>\$375,654</u>	<u>(198,518)</u>	
Component Unit:					
Hardin Community School	<u>\$272,449</u>		<u>\$405,692</u>		<u>\$133,243</u>
General Cash Receipts:					
Grants and entitlements not restricted to specific programs				403,127	
Investment earnings				1,178	
Miscellaneous				7,397	
Total general cash receipts				<u>411,702</u>	
Change in net cash position				213,184	133,243
Net cash position at beginning of year				<u>1,118,973</u>	<u>126,716</u>
Net cash position at end of year				<u>\$1,332,157</u>	<u>\$259,959</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013**

	<u>General</u>	<u>IDEA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$1,270,499	\$29,281	\$32,377	\$1,332,157
Total assets	<u>1,270,499</u>	<u>29,281</u>	<u>32,377</u>	<u>1,332,157</u>
Fund Cash Balances:				
Restricted:				
Public school preschool			10,088	10,088
Special education		29,281	5,868	35,149
Targeted academic assistance			7,100	7,100
Other purposes			9,321	9,321
Assigned:				
Other purposes	248,631			248,631
Unassigned	1,021,868			1,021,868
Total fund cash balances	<u>\$1,270,499</u>	<u>\$29,281</u>	<u>\$32,377</u>	<u>\$1,332,157</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>General</u>	<u>IDEA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
From local sources:				
Tuition	\$1,664,104			\$1,664,104
Contract services	57,192			57,192
Earnings on investments	1,178			1,178
Other local revenues	7,397			7,397
Intergovernmental - state	403,127		\$88,991	492,118
Intergovernmental - federal		\$257,921	28,742	286,663
Total cash receipts	<u>2,132,998</u>	<u>257,921</u>	<u>117,733</u>	<u>2,508,652</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	64,180			64,180
Special	854,793		74,175	928,968
Support services:				
Pupil	519,430			519,430
Instructional staff	78,570		1,647	80,217
Board of education	17,591			17,591
Administration	183,251		9,935	193,186
Fiscal	118,560			118,560
Operations and maintenance	19,988			19,988
Central	79,960			79,960
Extracurricular activities	1,071			1,071
Intergovernmental		252,406	19,911	272,317
Total cash disbursements	<u>1,937,394</u>	<u>252,406</u>	<u>105,668</u>	<u>2,295,468</u>
Net change in fund cash balances	195,604	5,515	12,065	213,184
Fund cash balances at beginning of year	<u>1,074,895</u>	<u>23,766</u>	<u>20,312</u>	<u>1,118,973</u>
Fund cash balances at end of year	<u>\$1,270,499</u>	<u>\$29,281</u>	<u>\$32,377</u>	<u>\$1,332,157</u>

See accompanying notes to the basic financial statements.

HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET POSITION - CASH BASIS
FIDUCIARY FUND
JUNE 30, 2013

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$12,765
Total assets	<u>12,765</u>
Net Cash Position:	
Undistributed monies	12,765
Total net cash position	<u>\$12,765</u>

See accompanying notes to the basic financial statements.

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

1. DESCRIPTION OF THE SCHOOL CENTER

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.

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 23 support staff employees and 28 certified teaching personnel that provide services to the local, city and exempted village school districts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.D., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" and GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The reporting entity is composed of the primary government and component units. 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, food service, and student related activities of the Center.

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 organization's 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; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading.

Based upon the application of these criteria, the Center has one component unit. The component unit column on the government wide financial statements identify the financial data of the Center's discretely presented component unit, Hardin Community School. It is reported separately to emphasize that it is legally separate from the Center.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the Center:

1. Discretely Presented Component Unit

Hardin Community School

The Hardin Community School (the "School") is a legally separate, not-for profit organization served by an appointed Board of Directors. In October 2010, the Hardin County Court of Common Pleas, Juvenile Division (Lifeworks Center), the Hardin Community School, and the Hardin County Educational Service Center (Sponsor), entered into a Memorandum of Understanding (MOU) toward establishing a mutual framework governing the respective organizational relationships, responsibilities, activities, and cooperation. The Lifeworks Center serves young people on court probation by academically assisting students with a mixture of education, vocational assistance, mentoring, mental health and drug and alcohol services so as to improve the possibility of success for the student, family and the Hardin County community. The School, through its Sponsor, is the educational provider of a diverse education program. Its students are actively involved in learning activities as individual staff and faculty offer areas of expertise that are equally diverse; educating high risk as well as more traditional students, who are enrolled.

Based on the significant services provided by the Sponsor to the School, the School is reflected as a component unit of the Center. Separately issued financial statements can be obtained by writing to Mandy Gossard France, Treasurer, 333 East Center Street, Marion, Ohio 43302, by calling 740-387-6625, or by email at mfrance@ncoesc.org.

2. Jointly Governed Organizations

Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (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. WOCO 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.

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 14 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information can be obtained from Don Walls, Director, at 129 East Court Street, Sidney, Ohio 45265.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Insurance Pools

Hardin County School 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 of 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 may be obtained from Rick Combs, who services as Director, 9525 T.R. 50, Dola, Ohio 45835.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan was established under Section 4123.29 of the Ohio Revised Code. The Plan's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the Plan.

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 non-profit 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 actually determined rates and are allocated to a self-insurance pool (for claims and assessments), reinsurance coverage (for catastrophic losses), and a third party administrator (to handle claims and administrative expenses). The third party administrator is Frank Gates Service Company. Financial information can be obtained from Ohio Schools Risk Sharing Authority, Inc., 655 Metro Place South, Suite 900, Dublin, Ohio 43017.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. 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 are those through which most governmental functions typically are financed. The following are the Center's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

IDEA fund - The IDEA 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 disbursements on behalf of local public school districts in Hardin County.

Other governmental funds of the Center are used to account for grants and other resources whose used is restricted, committed, or assigned to another purpose.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net cash assets and changes in net position. The Center's only fiduciary funds are agency funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

C. Basis of Presentation

1. Government-wide Financial Statements

The statement of net position 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 government-wide statement of activities presents a comparison between direct disbursements and program receipts for each function or program of the governmental activities of the Center. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts not classified as program receipts are presented as general receipts of the Center.

All assets and net position associated with the operation of the Center are included on the statement of net position.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Fund Financial Statements

Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

D. Basis of Accounting

Although Ohio Administrative Code § 117-2-03(B) requires the Center's financial report to follow generally accepted accounting principles, the Center chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. The Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

E. Budgetary Process

Educational service centers do not have the authority to adopt annual legally-adopted appropriation budgets. However, the ESC has chosen to adopt an appropriation resolution for internal control purposes. Therefore, even though a statement or schedule of budgetary results is not required to be presented, the ESC has chosen to present a budgetary schedule as supplemental information.

F. Cash and Investments

To improve cash management, 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 basic financial statements.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest credited to the general fund during fiscal year 2013 amounted to \$1,178, which includes \$62 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities 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 are reported as investments.

An analysis of the Center's investment account at year end is provided in Note 4.

G. Inventory and Prepaid Items

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

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

I. Compensated Absences

Compensated absences of the Center consist of sick leave. Employees are entitled to cash payments for sick leave in certain circumstances, such as retirement only. Unpaid sick leave is not reflected as a liability under the cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

Loans and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments. The Center had no debt obligations during fiscal year 2013.

L. Fund Cash Balance

Fund balance is divided into five classifications based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable - The non-spendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Center Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Center Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Center Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Center applies restricted resources first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Cash Position

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

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

N. 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2013.

O. 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 receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2013, these funds included the Special Education Grants to States and Special Education Preschool Grants.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2013, the District has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the District.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the District.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the District.

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the District's financial statements to incorporate the concepts of net position.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the District.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the District.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

B. Compliance

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

4. DEPOSITS AND INVESTMENTS

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.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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 monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

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

Interim monies 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 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 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;

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 monies deposited with the institution.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the Center had \$100 in un-deposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents."

B. Deposits with Financial Institutions

At June 30, 2013, the carrying amount of all Center deposits was \$532,548. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$304,621 of the Center's bank balance of \$554,621 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

C. Investments

As of June 30, 2013, the Center had the following investments:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$812,274	\$812,274

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

Credit Risk: STAR Ohio carries a credit rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center's investment policy limits investment portfolio maturities to two years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Center's name. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Center's policy suggests but does not limit the amount that may be invested in any one issuer. The Center held 100 percent of its investments in STAR Ohio at June 30, 2012.

D. Reconciliation of Cash to the Statement of Net Position

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net position as of June 30, 2013:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$532,548
Investments	812,274
Cash on hand	100
Total	<u>\$1,344,922</u>
 <u>Cash and investments per statement of net cash position</u>	
Governmental activities	\$1,332,157
Agency Funds	12,765
Total	<u>\$1,344,922</u>

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

5. 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. Each 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. 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 districts served by the Center by \$37.

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 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 school districts approve or disapprove the additional apportionment.

6. 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 2013, the Center contracted with Schools of Ohio Risk Sharing Authority (SORSA) for general liability insurance with a \$2,000,000 single occurrence limit and a \$4,000,000 aggregate. Property is also protected by SORSA with a building and business personal property limit of \$530,588. 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.

7. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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 (see Note 2.A for detail). Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies by employee depending on the terms of the union contract.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

8. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2013, 13.05 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$72,611, \$81,999 and \$90,985, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

8. PENSION PLANS (Continued)

A DB 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. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2013, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2013, 2012 and 2011 were \$141,521, \$172,529 and \$205,832, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the SERS/STRS Ohio have an option to choose Social Security or the SERS/STRS Ohio. As of June 30, 2013, certain members of the Board of Education have elected Social Security. The Center's liability is 6.2 percent of wages paid.

9. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2013, 0.16 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2013, the actuarially determined amount was \$20,525.

Active members do not contribute to the postemployment benefit plans. The 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 Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2013, 2012 and 2011 were \$8,902, \$11,734 and \$10,131, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2013, this actuarially required allocation was 0.74 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2013, 2012, and 2011 were \$4,102, \$4,842 and \$752, respectively; 65.76 percent has been contributed for fiscal year 2013 and 100 percent for fiscal years 2012 and 2011.

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2013, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2013, 2012 and 2011 were \$10,886, \$13,271 and \$15,591, respectively; 100 percent has been contributed for fiscal years 2013, 2012 and 2011.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

10. OTHER COMMITMENTS

The Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund cash balance. At year end, the Center's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General Fund	\$34,312
Non-major governmental funds	5,746
Total	\$40,058

11. CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is not party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

12. RELATED PARTY TRANSACTIONS

During fiscal year 2013, the Center provided administrative support services to the School. The approximate value of these services was \$2,025.

During the fiscal year ended June 20, 2013, the Center also provided the salaries and benefits for one teacher and three instructional assistants to the Hardin Community School. The value of these benefits was as follows:

Salaries	\$42,011
Benefits	8,391
Total	\$50,402

13. HARDIN COMMUNITY SCHOOL (Component Unit)

The Hardin Community School (the "School") serves as a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is a charter school in the State of Ohio. The School is an approved tax-exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that occurred that might adversely affect the School's tax-exempt status.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

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

The School was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2010 and ending on June 30, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

A. Significant Accounting Policies

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

1. Basis of Presentation

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

2. Basis of Accounting

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

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

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

3. Budgetary Process

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

4. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates it cash into separate funds.

5. Capital Assets

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

6. Inventory and Prepaid Items

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

7. Net Cash Position

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

8. Operating Revenues and Expenses

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

9. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation payments for the fiscal year 2013 amounted to \$248,918.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. During 2013, the School received \$143,458 in grants and entitlements during fiscal year 2013.

10. Change in Accounting Principles

For fiscal year 2013, the School has implemented GASB Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", GASB Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34", GASB Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA pronouncements", GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", GASB Statement No. 65, "Items Previously Reported as Assets and Liabilities", and GASB Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The implementation of GASB Statement No. 60 did not have an effect on the financial statements of the School.

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. Finally, the Statement also clarifies the reporting of equity interests in legally separate organizations. The implementation of GASB Statement No. 61 did not have an effect on the financial statements of the School.

GASB Statement No. 62 codifies accounting and financial reporting guidance contained in pre-November 30, 1989 FASB and AICPA pronouncements in an effort to codify all sources of GAAP for State and local governments so that they derive from a single source. The implementation of GASB Statement No. 62 did not have an effect on the financial statements of the School.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

GASB Statement No. 63 provides financial and reporting guidance for *deferred outflows of resources* and *deferred inflows of resources* which are financial statement elements that are distinct from assets and liabilities. GASB Statement No. 63 standardizes the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's *net position*. The implementation of GASB Statement No. 63 has changed the presentation of the School's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as *deferred outflows of resources* or *deferred inflows of resources*, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 also provides other financial reporting guidance related to the impact of the financial statement elements *deferred outflows of resources* and *deferred inflows of resources*, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The implementation of GASB Statement No. 65 did not have an effect on the financial statements of the School.

GASB Statement No. 66 enhances the usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The implementation of GASB Statement No. 66 did not have an effect on the financial statements of the School.

11. Compliance

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

B. Deposits and Investments

At June 30, 2013, the carrying amount of the School's deposits was \$259,959 and the bank balance was \$260,314; \$250,000 of the Community School's deposits were covered by the Federal Deposit Insurance Corporation. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2013, \$10,314 was exposed to custodial credit risk.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

C. Risk Management

Property and Liability

Presently, the School is being provided space by Lifeworks Center who is paying the property and liability insurance on their building and property in a policy through the Hardin County Commissioners. The Community School also has a liability policy with SORSA.

D. Other Employee Benefits

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

E. Management Agreement

The School entered into a contract, effective July 1, 2010 through June 30, 2015, renewable each year up to five years, with Hardin County Educational Service Center (Sponsor) for educational and financial management services. The School paid the Sponsor \$132,683 for services provided during fiscal year 2013. Terms of the contract require the Sponsor to provide the following:

1. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the School;
2. Implementation and administration of the Educational Program, including the selection of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
3. All personnel functions, including professional development for the School principal, all instructional personnel, and support staff;
4. All aspects of the business administration of the School;
5. Transportation and food service for the School;
6. A projected annual budget prior to each fiscal year;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

7. Detailed statements of all revenues received, from whatever source, and detailed statements of all expenses for services rendered to or on behalf of the School, whether incurred on-site or off-site, upon request;
8. Annual audits in compliance with state law and regulations' performances, upon request;
9. Reports on School operations, finances, and students' performances, upon request; and
10. Any other function necessary or expedient for the administration of the School.

F. Purchased Services

For fiscal year ended June 30, 2013, expenses for purchased services were as follows:

Professional and technical services	\$182,939
Administrative/meeting expenses	<u>3,253</u>
Total	<u>\$186,192</u>

G. Rental Agreement

The School entered into memorandum of agreement with Lifeworks Center and its Sponsor beginning November 1, 2010 through November 1, 2014, with the Sponsor providing internet access in exchange for class space (rent), restrooms, lunch/vending area, conference space, security features, and utilities. Lifeworks provided these for fiscal year 2013 with rent and utilities being \$3,099 and \$715 per month respectively. See Note 13 for detail on in-kind contributions.

H. Federal Tax-Exempt Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that occurred that might adversely affect the School's tax-exempt status.

I. Fiscal Agent And Administrative Services

The School utilizes the services of the Hardin County Educational Service Center for a variety of services including its Assistant Treasurer as the School's fiscal officer. The School does not directly pay the Treasurer or other individuals; however, it does reimburse the Hardin County Educational Service Center for the services.

J. Contingencies

1. Grants

The School receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2013.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(Continued)**

13. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

2. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School has not been reviewed as of June 30, 2013. The School does not anticipate any significant adjustments to State funding for the fiscal year 2014, as a result of the reviews which have yet to be completed.

K. Related Party Transactions

During fiscal year 2013, the school received in-kind contributions from Lifeworks Center and its Sponsor. Lifeworks Center provided classroom space, restrooms, lunch/vending area, conference space, security features, and utilities. The Sponsor provided administrative support services. All in-kind contributions totaled \$47,793.

Below are the amounts contributed to the School by Lifeworks Center and its Sponsor:

Lifeworks Center:	
Rent	\$37,188
Utilities	8,580
Total	<u>\$45,768</u>
Hardin County ESC:	
Administrative support	<u>\$2,025</u>
Total	<u>\$2,025</u>

L. Subsequent Event

Effective August 1, 2013, the School's sponsor changed from the Hardin County Educational Service Center to the North Central Ohio Educational Service Center.

14. SUBSEQUENT EVENT

On March 4, 2014, the Hardin County Educational Service Center along with Shelby County Educational Service Center and Logan County Educational Service Center made a decision to merge effective July 1, 2014 to create Midwest Regional Educational Service Center, and the Governing boards of the Hardin, Shelby, and Logan Educational Service Center shall be dissolved.

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Cash Receipts:				
From local sources:				
Tuition	\$517,513	\$1,586,641	\$1,664,104	\$77,463
Contract services	52,450	69,551	57,192	(12,359)
Earnings on investments	360	500	1,178	678
Other local receipts	33,000	36,807	8,300	(28,507)
Intergovernmental - state	1,222,012	495,513	403,127	(92,386)
Total cash receipts	<u>1,825,335</u>	<u>2,189,012</u>	<u>2,133,901</u>	<u>(55,111)</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	68,496	71,496	65,080	6,416
Special	803,709	896,877	860,588	36,289
Support services:				
Pupil	487,843	525,043	520,268	4,775
Instructional staff	79,903	85,003	78,570	6,433
Board of education	21,340	27,940	23,925	4,015
Administration	209,969	234,154	188,587	45,567
Fiscal	124,952	133,215	126,389	6,826
Operations and maintenance	22,000	22,000	19,988	2,012
Central	117,000	117,000	88,142	28,858
Extracurricular activities	1,383	1,383	1,071	312
Total cash disbursements	<u>1,936,595</u>	<u>2,114,111</u>	<u>1,972,608</u>	<u>141,503</u>
Net change in fund cash balance	(111,260)	74,901	161,293	86,392
Fund cash balance at beginning of year	1,046,009	1,046,009	1,046,009	
Prior year encumbrances appropriated	28,885	28,885	28,885	
Fund cash balance at end of year	<u>\$963,634</u>	<u>\$1,149,795</u>	<u>\$1,236,187</u>	<u>\$86,392</u>

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
FUND CASH BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS)
IDEA FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Positive</u>
Cash Receipts:				
Intergovernmental - federal	\$257,921	\$257,921	\$257,921	
Total cash receipts	<u>257,921</u>	<u>257,921</u>	<u>257,921</u>	
Cash Disbursements:				
Intergovernmental	281,687	281,687	252,406	29,281
Total cash disbursements	<u>281,687</u>	<u>281,687</u>	<u>252,406</u>	<u>29,281</u>
Net change in fund cash balance	(23,766)	(23,766)	5,515	29,281
Fund cash balance at beginning of year	23,766	23,766	23,766	
Fund cash balance at end of year	<u>\$0</u>	<u>\$0</u>	<u>\$29,281</u>	<u>\$29,281</u>

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE SUPPLEMENTAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

BUDGETARY BASIS OF ACCOUNTING

The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts, disbursements, and encumbrances. The Schedule of Cash Receipts, Cash Disbursements and Changes in Fund Cash Balance - Budget and Actual (Budgetary Basis) presented for the General Fund and IDEA Fund is prepared on the budget basis to provide a meaningful comparison of actual results with the budget. The difference between the budget basis and the cash basis is outstanding year end encumbrances are treated as disbursements (budgetary basis) rather than as part of the assigned fund balance for the General Fund and the restricted fund balance for the IDEA fund (cash basis). The adjustments necessary to reconcile the cash and budget basis statements for the General Fund and IDEA Fund are as follows:

Net Change in Fund Balance	General Fund	IDEA Fund
Budget basis	\$161,293	\$5,515
Adjustment for encumbrances	\$4,311	
Cash basis	\$195,604	\$5,515

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED**

The management's discussion and analysis of the Hardin County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2012, within the limitations of the Center's cash basis of accounting. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the cash basis basic financial statements and the notes to the cash basis basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The Center restated June 30, 2011 net assets as described in Note 3.B. In total, net cash assets of governmental activities increased \$95,205 which represents a 9.30% increase from 2011.
- General cash receipts accounted for \$506,610 or 17.67% of total governmental activities cash receipts. Program specific cash receipts in the form of charges for services and sales, grants and contributions accounted for \$2,360,572 or 82.33% of total governmental activities cash receipts of \$2,867,182.
- The Center had \$2,771,977 in cash disbursements related to governmental activities; \$2,360,572 of these cash disbursements were offset by program specific charges for services, grants or contributions. General cash receipts supporting governmental activities (primarily unrestricted grants and entitlements) of \$506,610 were adequate to provide for these programs.
- The Center's major governmental funds are the general fund and IDEA fund. The general fund had \$2,109,449 in cash receipts and \$2,240,217 in cash disbursements. During fiscal year 2012, the general fund's fund cash balance decreased \$130,768 from \$1,205,663 to \$1,074,895.
- The Center's other major governmental fund is the IDEA fund. The IDEA fund had \$595,574 in cash receipts and \$427,577 in cash disbursements. During fiscal year 2012, the IDEA fund's fund cash balance increased \$167,997 from a deficit of \$144,231 to a positive balance of \$23,766.

Using these Cash Basis Basic Financial Statements

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Center's cash basis of accounting.

The statement of net assets - cash basis and statement of activities - cash basis provide information about the activities of the whole Center, presenting both an aggregate view of the Center's cash basis 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 most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the general fund and IDEA fund are by far the most significant funds, and the only governmental funds reported as major funds.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Reporting the Center as a Whole

Statement of Net Assets - Cash Basis and the Statement of Activities - Cash Basis

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 cash basis financial transactions and asks the question, "How did we do financially during 2012?" The statement of net assets - cash basis and statement of activities - cash basis answer this question. These statements include *only net assets* using the *cash basis of accounting*, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). This basis of accounting takes into account only the current year's receipts and disbursements if the cash is actually received or paid.

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

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

In the statement of net assets - cash basis and statement of activities - cash basis, the governmental activities include the Center's programs and services, including instruction and support services.

The Center's statement of net assets - cash basis and statement of activities - cash basis can be found on pages 55-56 of this report.

Reporting the Center's Most Significant Funds

Fund Financial Statements

The analysis of the Center's major governmental funds begins on page 52. Fund financial reports 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 only major governmental funds are the general fund and IDEA fund.

Governmental Funds

Most of the Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund financial statements provide a detailed 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 cash basis financial resources that can be spent in the near future to finance educational programs. Since the Center is reporting on the cash basis of accounting, there are no differences in the net assets and fund cash balances or changes in net assets and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. Only the cash held at year end is reported in a separate statement of cash basis assets and net cash assets - fiduciary fund assets on page 59. This cash is excluded from the Center's other financial statements because the cash cannot be utilized by the Center to finance its operations.

Notes to the Cash Basis Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the cash basis basic financial statements can be found on pages 61-84 of this report.

The Center as a Whole

Recall that the statement of net assets - cash basis provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net cash assets for 2012 and 2011 as restated.

	Net Cash Assets	
	Governmental Activities 2012	Restated Governmental Activities 2011
Assets:		
Equity in pooled cash and cash equivalents	\$1,118,973	\$1,023,768
Net Cash Assets:		
Restricted	45,991	19,860
Unrestricted	1,072,982	1,003,908
Total net cash assets	\$1,118,973	\$1,023,768

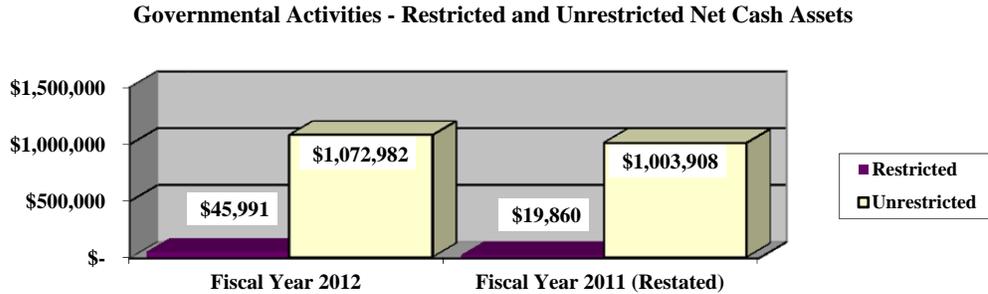
Over time, net cash assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Center's total net cash assets were \$1,118,973.

A portion of the Center's net cash assets, \$45,991, represents resources that are subject to external restrictions on how they may be used. The remaining balance of government-wide unrestricted net cash assets of \$1,072,982 may be used to meet the Center's ongoing obligations to students and creditors.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

The graph below presents the Center's governmental activities restricted and unrestricted net cash assets for fiscal years 2012 and 2011.



The table below shows the change in net cash assets for fiscal years 2012 and 2011.

	Change in Net Cash Assets	
	Governmental Activities 2012	Restated Governmental Activities 2011
Cash Receipts:		
Program cash receipts:		
Charges for services and sales	\$1,602,839	\$1,578,632
Operating grants and contributions	757,733	530,740
General cash receipts:		
Grants and entitlements	470,554	507,823
Investment earnings	303	979
Miscellaneous	35,753	18,017
Total cash receipts	<u>2,867,182</u>	<u>2,636,191</u>
Cash Disbursements:		
Program expenses:		
Instruction:		
Regular	67,697	84,874
Special	925,367	619,927
Support Services:		
Pupil	696,680	1,035,747
Instructional staff	119,217	134,091
Board of education	18,606	14,181
Administration	168,166	200,999
Fiscal	170,414	161,677
Operations and maintenance	20,308	19,013
Pupil transportation	30	9,475
Central	124,036	111,476
Extracurricular	19,075	1,566
Intergovernmental	442,381	558,985
Total cash disbursements	<u>2,771,977</u>	<u>2,952,011</u>
Change in net cash assets	95,205	(315,820)
Net cash assets at beginning of year	1,023,768	1,339,588
Net cash assets at end of year	<u>\$1,118,973</u>	<u>\$1,023,768</u>

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

Governmental Activities

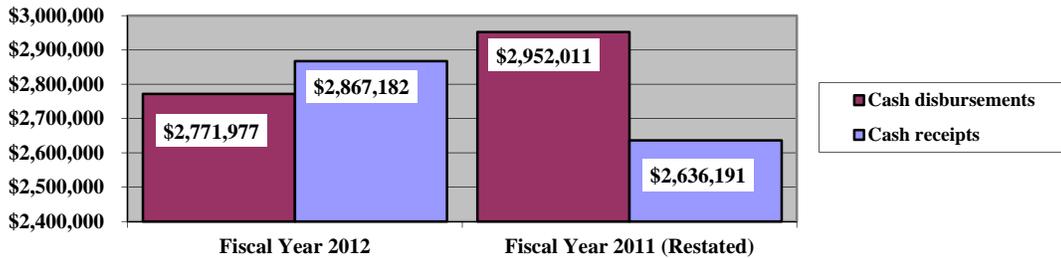
Net cash assets of the Center's governmental activities increased \$95,205. Total governmental cash disbursements of \$2,771,977 were offset by program cash receipts of \$2,360,572 and general cash receipts of \$506,610. Program cash receipts supported 85.16% of the total governmental cash disbursements.

The primary sources of cash receipts for governmental activities are derived from charges for services and sales. These cash receipts sources represent 55.90% of total governmental cash receipts.

The largest cash disbursement of the Center is for support services. Support services cash disbursements totaled \$1,317,457 or 47.53% of total governmental cash disbursements for fiscal year 2012.

The graph below presents the Center's governmental activities cash receipts and cash disbursements for fiscal years 2011 and 2012.

Governmental Activities - Cash Receipts and Disbursements



The statement of activities - cash basis shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State grants and entitlements.

	Governmental Activities			
	Total Cost of Services 2012	Net Cost of Services 2012	Restated Total Cost of Services 2011	Restated Total Cost of Services 2011
Program cash disbursements				
Instruction:				
Regular	\$67,697	\$17,680	\$84,874	\$11,861
Special	925,367	210,337	619,927	176,950
Support services:				
Pupil	696,680	198,217	1,035,747	299,026
Instructional staff	119,217	34,223	134,091	41,847
Board of education	18,606	5,294	14,181	4,201
Administration	168,166	42,455	200,999	58,986
Fiscal	170,414	48,486	161,677	47,891

(Continued)

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

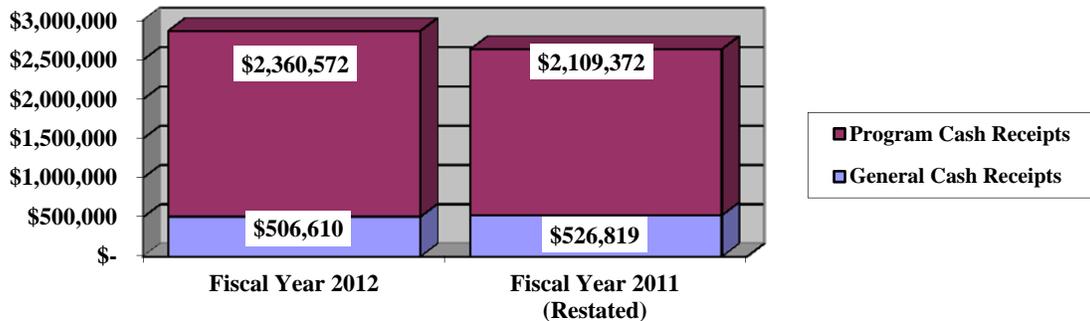
**Governmental Activities
(Continued)**

	Total Cost of Services 2012	Net Cost of Services 2012	Restated Total Cost of Services 2011	Restated Total Cost of Services 2011
Support Services: (Continued)				
Operations and maintenance	20,308	5,778	19,013	5,632
Pupil transportation	30	9	9,475	2,807
Central	124,036	35,290	111,476	33,021
Extracurricular activities	19,075	5,427	1,566	464
Intergovernmental	442,381	(191,791)	558,985	159,953
Total cash disbursements	<u>\$2,771,977</u>	<u>\$411,405</u>	<u>\$2,952,011</u>	<u>\$842,639</u>

The Center primarily depends upon charges for services provided by member districts; however, dependence upon other general cash receipts for governmental activities is apparent as 28.07% of support services activities are supported through grants and entitlements (including State foundation) and other general cash receipts. For all governmental activities, general cash receipt support is 14.84%.

The graph below presents the Center's governmental activities cash receipts for fiscal years 2012 and 2011.

Governmental Activities - General and Program Cash Receipts



The Center's Funds

The Center's governmental funds reported a combined fund cash balance of \$1,118,973, which is more than last year's restated total of \$1,023,768. The schedule below indicates the fund cash balance and the total change in fund cash balance as of June 30, 2012 and 2011.

	Fund Cash Balance June 30, 2012	(Restated) Fund Cash Balance (deficit) June 30, 2011	Increase (Decrease)	Percentage Change
General	\$1,074,895	\$1,205,663	(\$130,768)	(10.85)%
IDEA	23,766	(144,231)	167,997	116.48%
Other Governmental	20,312	(37,664)	57,976	153.93%
Total	<u>\$1,118,973</u>	<u>\$1,023,768</u>	<u>\$95,205</u>	9.30%

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

General Fund

The Center's general fund cash balance decreased \$130,768. The table that follows assists in illustrating the cash financial activities of the general fund.

	2012 Amount	Restated 2011 Amount	Increase (Decrease)	Percentage Change
Cash Receipts:				
Tuition	\$1,539,478	\$1,474,766	\$64,712	4.39%
Contract services	63,361	103,866	(40,505)	(39.00)%
Earnings on investments	303	979	(676)	(69.05)%
Intergovernmental	470,554	507,823	(37,269)	(7.34)%
Other	35,753	18,017	17,736	98.44%
Total	<u>2,109,449</u>	<u>2,105,451</u>	<u>3,998</u>	0.19%
Cash Disbursements:				
Instruction	917,534	571,291	346,243	60.61%
Support Services	1,303,608	1,670,197	(366,589)	(21.95)%
Extracurricular activities	19,075	1,566	17,509	1118.07%
Total	<u>\$2,240,217</u>	<u>\$2,243,054</u>	<u>(\$2,837)</u>	

The most significant dollar change in cash receipts occurred in tuition which increased \$64,712 or 4.39% due mainly to more foundation payments being received. Contract services decreased \$40,505 or 39.00% due mainly to less being received from contracts paid by client districts. Earnings on investments decreased \$676 or 69.05% due to the decrease in interest rates. Intergovernmental receipts decreased \$37,269 or 7.34% due to a decrease in state foundation funding in 2012. Other receipts increased \$17,736 or 98.44% due mainly to receipts from refunds and reimbursements. Instructional cash disbursements increased \$346,243 or 60.61% while support services cash disbursements decreased \$366,589 or 21.95%, due to a general decrease in operating costs. Extracurricular activities cash disbursements increased \$17,509 or 1,118.07% due to the Center assuming more of these costs.

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The Center had no debt obligations outstanding at June 30, 2012.

Current Financial Related Activities

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
UNAUDITED
(Continued)**

In conclusion, the Hardin County Educational Service Center has committed itself to financial excellence for many years. The Center prides itself on providing quality service while at the same time being sensitive to the financial hardships facing its client districts. A sound system of budgeting and internal controls enables the Center to operate efficiently and to meet the financial challenges of the future.

Contacting the Center's Financial Management

The financial report is designed to provide citizens, investors and creditors with a general overview of the Center's finances and to show the Center's accountability for the money received. Questions about the report may be directed to: Sara Tracey, Treasurer, Hardin County Educational Service Center, 1211 West Lima Street, Kenton, Ohio 43326, or email at treasurer@hardinesc.org.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF NET ASSETS - CASH BASIS
JUNE 30, 2012**

	Primary Government	Component Unit
	Governmental Activities	Hardin Community School
Assets:		
Equity in pooled cash and cash equivalents	\$1,118,973	\$126,716
Total assets	1,118,973	126,716
Net Cash Assets:		
Restricted for:		
State funded programs	7,361	
Federally funded programs	38,630	11,875
Other purposes		
Unrestricted	1,072,982	114,841
Total net cash assets	\$1,118,973	\$126,716

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Net (Disbursements) Receipts and Changes in Net Cash Assets				
	Program Cash Receipts			Primary Government	Component Unit
	Cash Disbursements	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	Hardin Community School
Governmental Activities:					
Instruction:					
Regular	\$67,697	\$45,659	\$4,358	(\$17,680)	
Special	925,367	610,823	104,207	(210,337)	
Support services:					
Pupil	696,680	498,463		(198,217)	
Instructional staff	119,217	84,644	350	(34,223)	
Board of education	18,606	13,312		(5,294)	
Administration	168,166	111,065	14,646	(42,455)	
Fiscal	170,414	121,928		(48,486)	
Operations and maintenance	20,308	14,530		(5,778)	
Pupil transportation	30	21		(9)	
Central	124,036	88,746		(35,290)	
Extracurricular activities	19,075	13,648		(5,427)	
Intergovernmental	442,381		634,172	191,791	
Totals	\$2,771,977	\$1,602,839	\$757,733	(411,405)	
Component Unit:					
Hardin Community School	<u>\$382,955</u>		<u>\$404,104</u>		<u>\$21,149</u>
General Cash Receipts:					
Grants and entitlements not restricted to specific programs			470,554		
Investment earnings			303		
Miscellaneous			<u>35,753</u>		
Total general cash receipts			<u>506,610</u>		
Change in net cash assets			95,205		21,149
Net cash assets at beginning of year (restated)			<u>1,023,768</u>		<u>105,567</u>
Net cash assets at end of year			<u>\$1,118,973</u>		<u>\$126,716</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF ASSETS AND FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	<u>General</u>	<u>IDEA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$1,074,895	\$23,766	\$20,312	\$1,118,973
Total assets	<u>1,074,895</u>	<u>23,766</u>	<u>20,312</u>	<u>1,118,973</u>
Fund Cash Balances:				
Restricted:				
Unclaimed monies				
Public school preschool			7,007	7,007
Special education		23,766		23,766
Targeted academic assistance			7,100	7,100
Other purposes			8,118	8,118
Assigned:				
Other purposes	345,293			345,293
Unassigned (deficit)	729,602		(1,913)	727,689
Total fund cash balances	<u>\$1,074,895</u>	<u>\$23,766</u>	<u>\$20,312</u>	<u>\$1,118,973</u>

See accompanying notes to the basic financial statements.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES - CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u>	<u>IDEA</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash Receipts:				
From local sources:				
Tuition	\$1,539,478			\$1,539,478
Contract services	63,361			63,361
Earnings on investments	303			303
Contributions and donations			\$2,984	2,984
Other local revenues	35,753			35,753
Intergovernmental - state	470,554		120,227	590,781
Intergovernmental - federal		\$595,574	38,948	634,522
Total cash receipts	<u>2,109,449</u>	<u>595,574</u>	<u>162,159</u>	<u>2,867,182</u>
Cash Disbursements:				
Current:				
Instruction:				
Regular	63,815		3,882	67,697
Special	853,719		71,648	925,367
Support services:				
Pupil	696,680			696,680
Instructional staff	118,303		914	119,217
Board of education	18,606			18,606
Administration	155,231		12,935	168,166
Fiscal	170,414			170,414
Operations and maintenance	20,308			20,308
Pupil transportation	30			30
Central	124,036			124,036
Extracurricular activities	19,075			19,075
Intergovernmental		427,577	14,804	442,381
Total cash disbursements	<u>2,240,217</u>	<u>427,577</u>	<u>104,183</u>	<u>2,771,977</u>
Net change in fund cash balances	(130,768)	167,997	57,976	95,205
Fund cash balances at beginning of year (deficit) - Restated	<u>1,205,663</u>	<u>(144,231)</u>	<u>(37,664)</u>	<u>1,023,768</u>
Fund cash balances at end of year	<u>\$1,074,895</u>	<u>\$23,766</u>	<u>\$20,312</u>	<u>\$1,118,973</u>

See accompanying notes to the basic financial statements.

HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY

STATEMENT OF FIDUCIARY NET ASSETS - CASH BASIS
FIDUCIARY FUNDS
JUNE 30, 2012

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$13,699
Total assets	<u>13,699</u>
Net Cash Assets:	
Undistributed monies	13,699
Total net cash assets	<u>\$13,699</u>

See accompanying notes to the basic financial statements.

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**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

1. DESCRIPTION OF THE SCHOOL CENTER

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.

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 23 support staff employees and 33 certified teaching personnel that provide services to the local, city and exempted village school districts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 2.D., these financial statements are presented on the cash basis of accounting. The cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In cases where these cash basis statements contain items that are the same as, or similar to, those items in financial statements prepared in conformity with GAAP, similar informative disclosures are provided.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government and component units. 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.

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 organization's 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; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) 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. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary governments financial statements incomplete or misleading.

Based upon the application of these criteria, the Center has one component unit. The component unit column on the government wide financial statements identify the financial data of the Center's discretely presented component unit, Hardin Community School. It is reported separately to emphasize that it is legally separate from the Center.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following organizations are described due to their relationship to the Center:

1. Discretely Presented Component Unit

Hardin Community School

The Hardin Community School (the "School") is a legally separate, not-for profit organization served by an appointed Board of Directors. In October 2010, the Hardin County Court of Common Pleas, Juvenile Division (Lifeworks Center), the Hardin Community School, and the Hardin County Educational Service Center (Sponsor), entered into a Memorandum of Understanding (MOU) toward establishing a mutual framework governing the respective organizational relationships, responsibilities, activities, and cooperation. The Lifeworks Center serves young people on court probation by academically assisting students with a mixture of education, vocational assistance, mentoring, mental health and drug and alcohol services so as to improve the possibility of success for the student, family and the Hardin County community. The School, through its Sponsor, is the educational provider of a diverse education program. Its students are actively involved in learning activities as individual staff and faculty offer areas of expertise that are equally diverse; educating high risk as well as more traditional students, who are enrolled.

Based on the significant services provided by the Sponsor to the School, the School is reflected as a component unit of the Center. Separately issued financial statements can be obtained by writing to Mandy Gossard France, Treasurer, 1211 West Lima Street, Kenton, Ohio 43326, by calling 419-674-2288, or by email at step_treas@hardinesc.org.

2. Jointly Governed Organizations

Western Ohio Computer Organization

The Center is a participant in the Western Ohio Computer Organization (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. WOCO 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.

The superintendent of each member district is seated in the assembly, which elects a Board of Directors for the Consortium, and approves major items proposed by the Board of Directors, such as the annual budget, fees schedule, and new cooperative ventures. The Board of Directors is comprised of 14 members, including two superintendents from member districts in each county and the superintendent of the entity serving as its fiscal agent (currently the Shelby County Educational Service Center). Financial information can be obtained from Don Walls, Director, at 129 East Court Street, Sidney, Ohio 45265.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Insurance Pools

Hardin County School 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 of 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 may be obtained from Rick Combs, who services as Director, 9525 T.R. 50, Dola, Ohio 45835.

Ohio School Boards Association Workers' Compensation Group Rating Plan

The Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Plan (the "Plan"), an insurance purchasing pool. The Plan was established under Section 4123.29 of the Ohio Revised Code. The Plan's business and affairs are conducted by a three-member Board of directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the Plan to cover the costs of administering the program. The firm of Comp Management Inc. provides administrative, cost control and actuarial services to the Plan.

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 non-profit 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 actually determined rates and are allocated to a self-insurance pool (for claims and assessments), reinsurance coverage (for catastrophic losses), and a third party administrator (to handle claims and administrative expenses). The third party administrator is Frank Gates Service Company. Financial information can be obtained from Ohio Schools Risk Sharing Authority, Inc., 655 Metro Place South, Suite 900, Dublin, Ohio 43017.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. 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 proprietary.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Governmental Funds

Governmental funds are those through which most governmental functions typically are financed. The following are the Center's major governmental funds:

General fund -The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund balance is available for any purpose provided it is disbursed or transferred according to the general laws of Ohio.

IDEA fund - The IDEA 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 disbursements on behalf of local public school districts in Hardin County.

Other governmental funds of the Center are used to account for grants and other resources whose use is restricted, committed, or assigned to another purpose.

2. Fiduciary Funds

Fiduciary fund reporting focuses on net cash assets and changes in net assets. The Center's only fiduciary funds are agency funds. Agency funds are custodial in nature and do not involve measurement of results of operations.

C. 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 government-wide statement of activities presents a comparison between direct disbursements and program receipts for each function or program of the governmental activities of the Center. Direct disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program receipts include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Receipts not classified as program receipts are presented as general receipts of the Center.

All assets and net assets associated with the operation of the Center are included on the statement of net assets.

2. Fund Financial Statements

Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting

Although Ohio Administrative Code § 117-2-03(B) requires the Center's financial report to follow generally accepted accounting principles, the Center chooses to prepare its financial statements and notes in accordance with the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America. The Center recognizes receipts when received in cash rather than when earned and recognizes disbursements when paid rather than when a liability is incurred.

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

E. 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. The Center has elected to not present budgetary schedules as supplementary information for fiscal year 2012.

F. Cash and Investments

To improve cash management, 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 basic financial statements.

During fiscal year 2012, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio). STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but 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 shares price which is the price the investment could be sold for on June 30, 2012.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest credited to the general fund during fiscal year 2012 amounted to \$303, which includes no interest assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities 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 are reported as investments.

An analysis of the Center's investment account at year end is provided in Note 4.

G. Inventory and Prepaid Items

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets

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

I. Compensated Absences

Compensated absences of the Center consist of sick leave. Employees are entitled to cash payments for sick leave in certain circumstances, such as retirement only. Unpaid sick leave is not reflected as a liability under the cash basis of accounting.

J. Employer Contributions to Cost-Sharing Pension Plans

The Center recognizes the disbursements for employer contributions to cost-sharing pension plans when they are paid. As described in Notes 8 and 9, the employer contributions include portions for pension benefits and for postretirement health care benefits.

K. Long-Term Obligations

Loans and other long-term obligations are not recognized as a liability in the financial statements under the cash basis of accounting. These statements report proceeds of debt when cash is received, and debt service disbursements for debt principal payments. The Center had no debt obligations during fiscal year 2012.

L. Fund Cash Balance

Fund balance is divided into five classifications based primarily on the extent to which the Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Non-spendable - The non-spendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints are placed on the use of resources that are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Center Board of Education (the highest level of decision making authority). Those committed amounts cannot be used for any other purpose unless the Center Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Center Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

Unassigned - Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is only used to report a deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Center applies restricted resources first when disbursements are incurred for purposes for which restricted and unrestricted (committed, assigned, and unassigned) fund balance is available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when disbursements are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

M. Net Cash Assets

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

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

N. 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 Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

O. 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 receipts and intergovernmental disbursements in a special revenue fund. For fiscal year 2012, these funds included the Special Education Grants to States and Special Education Preschool Grants.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2012, the Center has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the Center.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the Center.

B. Change in Basis of Accounting and Restatement of Prior Year Fund Balances and Net Assets

Ohio Administrative Code, Section 117-2-03(B), requires that the Center prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year ending June 30, 2012, the Center changed from a basis of accounting that follows generally accepted accounting principles (GAAP-basis) to the cash basis of accounting (See Note 2.D), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Center has elected to present the cash-basis financial statements in a format consistent with GASB Statement No. 34. Fund balances and net assets at June 30, 2011 have been restated to account for the change in accounting principle, which effectively eliminated balance sheet accruals.

The transition from a GAAP-basis to the cash-basis of accounting had the following effect on fund balances at June 30, 2011:

	Governmental Funds			Total Governmental
	General	IDEA	Non-major Governmental	
Fund balance at June 30, 2011	\$938,204	(\$29,732)	(\$9,890)	\$898,582
Adjustments due to change in basis of accounting	267,459	(114,499)	(27,774)	125,186
Restated fund cash balance at June 30, 2011	<u>\$1,205,663</u>	<u>(\$144,231)</u>	<u>(\$37,664)</u>	<u>\$1,023,768</u>

The transition from a GAAP-basis to the cash-basis of accounting had the following effect on net assets at June 30, 2011:

	Governmental Activities	Component Unit
Net assets at June 30, 2011	\$973,222	\$246,355
Adjustments due to change in basis of accounting	50,546	(140,788)
Restated net cash assets at June 30, 2011	<u>\$1,023,768</u>	<u>\$105,567</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

3. ACCOUNTABILITY AND COMPLIANCE (Continued)

C. Compliance

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

4. DEPOSITS AND INVESTMENTS

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.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five 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 monies. Interim monies are those monies which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories.

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

Interim monies 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 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 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;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above 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 (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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 monies deposited with the institution.

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, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash on Hand

At fiscal year end, the Center had \$100 in un-deposited cash on hand which is included on the financial statements of the Center as part of "equity in pooled cash and cash equivalents."

B. Deposits with Financial Institutions

At June 30, 2012, the carrying amount of all Center deposits was \$521,468. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, \$325,383 of the Center's bank balance of \$575,383 was exposed to custodial risk as discussed below, while \$250,000 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center. The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

4. DEPOSITS AND INVESTMENTS (Continued)

C. Investments

As of June 30, 2012, the Center had the following investment:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$611,104	\$611,104

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

Credit Risk: STAR Ohio carries a credit rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Center's investment policy limits investment portfolio maturities to two years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Center's name. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Center's policy suggests but does not limit the amount that may be invested in any one issuer. The Center held 100 percent of its investments in STAR Ohio at June 30, 2012.

D. Reconciliation of cash and investments to the statement of net assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2012:

Cash and investments per note:

Carrying amount of deposits	\$521,468
Investments	611,104
Cash on hand	100
Total	\$1,132,672

Cash and investments per statement of net cash assets:

Governmental activities	\$1,118,973
Agency funds	13,699
Total	\$1,132,672

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

5. 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. Each 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. 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 districts served by the Center by \$37.

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 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 school districts approve or disapprove the additional apportionment.

6. 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 2012, 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.

7. OTHER EMPLOYEE BENEFITS

A. Compensated Absences

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

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 (see Note 2.A for detail). Depending upon the plan chosen, the employees share the cost of the monthly premium with the Board. The premium varies by employee depending on the terms of the union contract.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan 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. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2012, 12.65 percent and 0.05 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations and death benefits to SERS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$81,999, \$90,985 and \$58,452, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org, under "Publications".

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. 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. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan.

The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

8. PENSION PLANS (Continued)

A DB 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. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011 and 2010 were \$172,529, \$205,832 and \$193,206, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

9. POST-EMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, Medicare Advantage, 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Section 3309.69 of the Ohio Revised Code. 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 lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2011 (latest information available) was \$96.40 for most participants, but could be as high as \$369.10 per month depending on their income and the SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under "Employers/Audit Resources".

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

9. POST-EMPLOYMENT BENEFITS (Continued)

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2012, 0.55 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2012, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The 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 Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2012, 2011 and 2010 were \$11,734, \$10,131 and \$27,400, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2012, this actuarially required allocation was 0.75 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2012, 2011, and 2010 were \$4,842, \$752 and \$658, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

B. State Teachers Retirement System of Ohio

Plan Description - The Center contributes to the cost sharing, multiple employer defined benefit Health Plan (the "Plan") administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which may be obtained by visiting www.strsoh.org, under "Publications" or by calling (888) 227-7877.

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2012, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2012, 2011 and 2010 were \$13,271, \$15,591 and \$14,833, respectively; 100 percent has been contributed for fiscal years 2012, 2011 and 2010.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

10. OTHER COMMITMENTS

The Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund cash balance. At year end, the Center's commitments for encumbrances in the governmental funds were as follows:

Fund	Year-End Encumbrances
General Fund	\$28,885
Non-major governmental funds	76
Total	\$28,961

11. CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, State and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is not party to legal proceedings that would have a material effect, if any, on the financial condition of the Center.

12. RELATED PARTY TRANSACTIONS

During fiscal year 2012, the Center provided administrative support services to the School. The approximate value of these services was \$5,000.

During the fiscal year ended June 20, 2012, the Center also provided the salaries and benefits for three teachers to the Hardin Community School. The value of these benefits was as follows:

Salaries	\$87,880
Benefits	36,110
Total	\$123,990

13. SIGNIFICANT SUBSEQUENT EVENTS

On August 1, 2012, James Zerkle was named Superintendent and Mandy Gossard France was named Treasurer of the ESC.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. HARDIN COMMUNITY SCHOOL (Component Unit)

The Hardin Community School (the "School") serves as a non-profit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702. The School is a charter school in the State of Ohio. The School is an approved tax-exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that occurred that might adversely affect the School's tax-exempt status.

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

The School was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2010 and ending on June 30, 2015. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

A. Summary Of Significant Accounting Policies

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

1. Basis of Presentation

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

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

2. Basis of Accounting

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

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

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

3. Budgetary Process

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

4. Cash and Cash Equivalents

All monies received by the School are maintained in a demand deposit account. For internal accounting purposes, the School segregates it cash into separate funds.

5. Capital Assets

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

6. Inventory and Prepaid Items

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

7. Net Cash Assets

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

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

8. Operating Revenues and Expenses

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

9. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation payments for the fiscal year 2012 amounted to \$265,893.

Education Jobs and Public Charter School grants are recognized as non-operating revenues in the accounting period in which they are received. The School received \$137,311 in grants and entitlements during fiscal year 2012.

B. Accountability And Compliance

1. Change in Accounting Principles

For fiscal year 2012, the School has implemented GASB Statement No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans", and GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53".

GASB Statement No. 57 addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. The implementation of GASB Statement No. 57 did not have an effect on the financial statements of the School.

GASB Statement No. 64 clarifies the circumstances in which a hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The implementation of GASB Statement No. 64 did not have an effect on the financial statements of the School.

2. Change in Basis of Accounting and Restatement of Prior Year Net Assets

Ohio Administrative Code, Section 117-2-03(B), requires that the School prepare its annual financial report in accordance with generally accepted accounting principles. For the fiscal year ending June 30, 2012, the School changed from a basis of accounting that follows generally accepted accounting principles (GAAP-basis) to the cash basis of accounting (See Note 2.B), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The School has elected to present the cash-basis financial statements in a format consistent with GASB Statement No. 34. Net assets at June 30, 2011 have been restated to account for the change in accounting principle, which effectively eliminated accruals of assets and liabilities.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

The transition from a GAAP-basis to the cash-basis of accounting had the following effect on net assets at June 30, 2011:

Net assets at June 30, 2011		\$246,355
Adjustment due to change in basis of accounting		(140,788)
Restated net cash assets at June 30, 2011		\$105,567

3. Compliance

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

C. Deposits and Investments

At June 30, 2012, the carrying amount of the School's deposits was \$126,716 and the bank balance was \$129,711. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2012, the entire bank balance was covered by the Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the School's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the School. The School has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the School to a successful claim by the FDIC.

D. Risk Management

Property and Liability

Presently, the School is being provided space by Lifeworks Center who is paying the property and liability insurance on their building and property in a policy through the Hardin County Commissioners. The Community School also has a liability policy with SORSA.

E. Other Employee Benefits

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

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

F. Management Agreement

The School entered into a contract, effective July 1, 2010 through June 30, 2015, renewable each year up to five years, with Hardin County Educational Service Center (Sponsor) for educational and financial management services. The School paid the Sponsor \$101,971 for services provided during fiscal year 2012. Terms of the contract require the Sponsor to provide the following:

1. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the School;
2. Implementation and administration of the Educational Program, including the selection of instructional materials, equipment and supplies, and the administration of any and all extracurricular and co-curricular activities and programs;
3. All personnel functions, including professional development for the School principal, all instructional personnel, and support staff;
4. All aspects of the business administration of the School;
5. Transportation and food service for the School;
6. A projected annual budget prior to each fiscal year;
7. Detailed statements of all revenues received, from whatever source, and detailed statements of all expenses for services rendered to or on behalf of the School, whether incurred on-site or off-site, upon request;
8. Annual audits in compliance with state law and regulations' performances, upon request;
9. Reports on School operations, finances, and students' performances, upon request; and
10. Any other function necessary or expedient for the administration of the School.

G. Purchased Services

For fiscal year ended June 30, 2012, expenses for purchased services were as follows:

Professional and technical services	\$178,232
Administrative/meeting expenses	<u>3,606</u>
Total	<u><u>\$181,838</u></u>

H. RENTAL AGREEMENT

The School entered into memorandum of agreement with Lifeworks Center and its Sponsor beginning November 1, 2010 through November 1, 2014, with the Sponsor providing internet access in exchange for class space (rent), restrooms, lunch/vending area, conference space, security features, and utilities. Lifeworks provided these for fiscal year 2012 with rent and utilities being \$3,099 and \$715 per month respectively. See Note 14L for detail on in-kind contributions.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(Continued)**

14. HARDIN COMMUNITY SCHOOL (Component Unit) (Continued)

I. Federal Tax-Exempt Status

The School is a non-profit organization that has been determined by the Internal Revenue Service to be exempt from federal income taxes as a tax-exempt organization under Section 501(C)(3) of the Internal Revenue Code. Management is not aware of any course of action or series of events that occurred that might adversely affect the School's tax-exempt status.

J. Fiscal Agent And Administrative Services

The School utilizes the services of the Hardin County Educational Service Center for a variety of services including its Assistant Treasurer as the School's fiscal officer. The School does not directly pay the Treasurer or other individuals; however, it does reimburse the Hardin County Educational Service Center for the services.

K. Contingencies

1. Grants

The School receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2012.

2. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School has not been reviewed as of June 30, 2012. The School does not anticipate any significant adjustments to State funding for the fiscal year 2012, as a result of the reviews which have yet to be completed.

L. Related Party Transactions

During fiscal year 2012, the school received in-kind contributions from Lifeworks Center and its Sponsor. Lifeworks Center provided classroom space, restrooms, lunch/vending area, conference space, security features, and utilities. The Sponsor provided administrative support services. All in-kind contributions totaled \$50,768.

Below are the amounts contributed to the School by Lifeworks Center and its Sponsor:

Lifeworks Center:	
Rent	\$37,188
Utilities	8,580
Total	<u>\$45,768</u>
Hardin County ESC:	
Administrative support	<u>\$5,000</u>
Total	<u>\$5,000</u>



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Hardin County Educational Service Center, Hardin County, (the Center) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and have issued our report thereon dated March 4, 2014, wherein we noted the Center uses a special purpose framework other than generally accepted accounting principles. Also as disclosed in Note 3B to the financial statement during 2012, the Center restated the beginning fund balances and net assets as of July 1, 2011.

Internal Control Over Financial Reporting

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

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

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

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, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

Entity's Response to Findings

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.

Purpose of this Report

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



Dave Yost
Auditor of State

Columbus, Ohio

March 4, 2014

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2013 AND 2012**

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

FINDING NUMBER 2013-001

Noncompliance

Failure to File GAAP Report

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

Ohio Adm. Code Section 117-2-03 (B) requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP). However, the Center prepared its financial statements for fiscal years 2012 and 2013 following the cash accounting basis. This is a comprehensive accounting basis other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The Center should prepare its annual financial statements in accordance with generally accepted accounting principles to include assets, liabilities, and the disclosures required to accurately present the Center's financial condition.

Official's Response:

The Auditor of State has determined the financial statements and financial reports of ESC's shall be prepared in conformity with the requirements of GAAP and the Hardin County ESC believes the GAAP statements are of no significant value to the Hardin County ESC or the general public of Hardin County.

The Hardin County ESC has found the conversion process of a cash basis to GAAP to be a financial burden to the Center.

**HARDIN COUNTY EDUCATIONAL SERVICE CENTER
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2013 AND 2012**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-01	Accuracy of Financial Reporting	Yes	



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HARDIN COUNTY EDUCATIONAL SERVICE CENTER

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 10, 2014**