



Dave Yost • Auditor of State

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying cash-basis financial statements of the Hardin Community School, Hardin County, Ohio (the School), as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash financial position of the Hardin Community School, Hardin County, Ohio, as of June 30, 2015 and 2014, and the respective changes in cash financial position for the fiscal years then ended in accordance with the accounting basis described in Note 2.

Accounting Basis

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

Other Matters

Other Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2016, on our consideration of the School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 21, 2016

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)**

The discussion and analysis of the Hardin Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2015 are as follows:

- In total, net cash position was \$455,866 at June 30, 2015.
- The School had operating revenues of \$291,223 and operating expenses of \$275,150 for fiscal year 2015.
- The School also received \$48,972 in non-operating federal grants during fiscal year 2015.
- Total change in net cash position for fiscal year 2015 was an increase of \$65,045, from a beginning balance of \$390,821 to a balance of \$455,866.

Using these Cash Basis Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis provide information about the activities of the School.

Reporting the School's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the School do financially during 2015?" The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

These two statements report the School's net position and changes in net position on a cash basis. This change in net position is important because it tells the reader that, for the School as a whole, the cash basis financial position of the School has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. These statements can be found on pages 7 and 8 of this report.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

The table below provides a summary of the School's net cash position for fiscal years 2015 and 2014.

Net Cash Position		
	2015	2014
Assets:		
Current assets	\$455,866	\$390,821
Total assets	455,866	390,821
Net Cash Position:		
Restricted	11,875	11,875
Unrestricted	443,991	378,946
Total net cash position	\$455,866	\$390,821

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the School increased \$65,045, which represents a 16.64% increase from net cash position at June 30, 2014. A portion of the School's net cash position, \$11,875, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash assets of \$443,991 may be used for the School's ongoing operations.

The table below shows the changes in net position for fiscal year 2015 and 2014.

Change in Net Cash Position		
	2015	2014
Operating Revenues:		
Foundation payments	\$287,156	\$252,794
Sales/charges for services	3,606	5,448
Other	461	
Total operating revenues	291,223	258,242
Operating Expenses:		
Purchased services	174,736	163,080
Materials and supplies	63,847	15,366
Capital outlay	20,062	1,495
Other	16,505	5,365
Total operating expenses	275,150	185,306
Non-operating revenues:		
Federal grants	48,972	57,926
Total non-operating revenues	48,972	57,926
Change in net cash position	65,045	130,862
Net cash position at beginning of year	390,821	259,959
Net cash position at end of year	\$455,866	\$390,821

The increase in expenses was primarily in the areas of capital outlays and costs for materials and supplies. The School received less funding from Federal programs, specifically the Public Charter School Grant, during 2015.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(UNAUDITED)
(Continued)**

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The School does not have any debt obligations outstanding as of June 30, 2015.

Current Financial Related Activities

Effective August 1, 2013, the School's sponsor changed from the Hardin County Educational Service Center to the North Central Ohio Educational Service Center. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

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

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Alina Nemecek, Treasurer at the North Central Ohio Educational Service Center, Marion Campus, 333 East Center Street, Marion, Ohio 43302.

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HARDIN COMMUNITY SCHOOL
HARDIN COUNTY

STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2015

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$455,866
Total assets	<u>455,866</u>
Restricted for federal programs	11,875
Unrestricted	<u>443,991</u>
Total net cash position	<u><u>\$455,866</u></u>

See accompanying notes to the basic financial statements.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Operating Revenues:	
Foundation payments	\$287,156
Sales/charges for services	3,606
Other	461
Total operating revenues	<u>291,223</u>
Operating Expenses:	
Purchased services	174,736
Materials and supplies	63,847
Capital outlay	20,062
Other	16,505
Total operating expenses	<u>275,150</u>
Operating income	<u>16,073</u>
Non-Operating Revenues:	
Federal and state grants	48,972
Total non-operating revenues	<u>48,972</u>
Change in net cash position	65,045
Net cash position at beginning of year	<u>390,821</u>
Net cash position at end of year	<u><u>\$455,866</u></u>

See accompanying notes to the basic financial statements.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

The School was approved for operation under contract with the Sponsor for the period of five years commencing on July 1, 2010 and ending on June 30, 2015. Effective August 1, 2013, the School's Sponsor changed from the Hardin County Educational Service Center to the North Central Ohio Educational Service Center. The sponsorship contract with North Center Ohio Educational Service Center was renewed on June 23, 2015 for the period beginning July 1, 2015 and ending June 30, 2018. The Sponsor is responsible for evaluating the performance of the School and has the authority to deny renewal of the contract at its expiration or terminate the contract prior to its expiration.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Capital Assets

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

F. Inventory and Prepaid Items

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

G. Net Cash Position

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

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

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating Revenues and Expenses

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

I. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation payments for the fiscal year 2015 amounted to \$287,156.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. During 2015, the School received \$48,972 in grants and entitlements during fiscal year 2015.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2015, the School has implemented GASB Statement No. 69, "Government Combinations and Disposals of Government Operations".

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The implementation of GASB Statement No. 69 did not have an effect on the financial statements of the School.

B. Compliance

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

4. DEPOSITS AND INVESTMENTS

At June 30, 2015, the carrying amount of the School's deposits was \$455,866. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2015, \$229,228 of the School's bank balance of \$479,228 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

4. DEPOSITS AND INVESTMENTS (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.

5. RISK MANAGEMENT

Property and Liability

Presently, the School is being provided space by the Sponsor 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.

6. OTHER EMPLOYEE BENEFITS

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

7. FISCAL AGENT AND ADMINISTRATIVE SERVICES

The School entered into a contract effective August 1, 2013 with the North Central Ohio Educational Service Center (Sponsor) for educational and financial management services. The School paid the Sponsor \$39,194 for services provided during fiscal year 2015. Per the purchased services agreement, the Sponsor provides labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the Schools. In addition, the Sponsor provides fiscal services to the School.

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

- Maintain custody of all funds received by the School in segregated accounts separate from the Sponsor or any other Community School's funds;
- Maintain all books and accounts of the School;
- Maintain all financial records of the School and follow procedures for receiving and expending State funds, which procedures shall include that the Treasurer shall disburse money only upon receipt of a voucher signed by the Chief Administrative Officer of the School or that Officer's designee;

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

7. FISCAL AGENT AND ADMINISTRATIVE SERVICES (Continued)

- Assist the School in meeting all financial reporting requirements established by the Auditor of Ohio;
- Invest funds of the School in the same manner as the funds of the Sponsor are invested, but the Treasurer shall not commingle the funds with any of the Sponsor or any other community school; and,
- Pay obligations incurred by the School within a reasonable amount of time, not more than 14 calendar days after receipt of a properly executed voucher signed by the Chief Administrative Officer of the Academy so long as the proposed expenditure is within the approved budget and funds are available.

8. PURCHASED SERVICES

For fiscal year ended June 30, 2015, expenses for purchased services were as follows:

Professional and technical services	\$ 172,258
Administrative/meeting expenses	<u>2,478</u>
Total	<u>\$ 174,736</u>

9. OPERATING LEASE AGREEMENT

The Sponsor entered into a lease agreement with the Hardin County Commissioners for the period August 1, 2013 through July 1, 2015 to rent a building located at 400 Decatur Street, Kenton, Ohio. This lease is at no cost to the Sponsor, except for repairs, maintenance, utilities and insurance. The Sponsor provides the space to the School.

10. CONTINGENCIES

A. Grants

The School receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2015.

B. State Foundation Funding

School Foundation funding is based on the annualized full-time equivalent (FTE) enrollment of each student. Effective for the 2014-2015 school year, the School must comply with minimum hours of instruction, instead of a minimum number of school days each year. The funding formula the Ohio Department of Education (ODE) is legislatively required to follow will continue to adjust as enrollment information is updated by the school district, which can extend past the fiscal year end.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015
(Continued)**

10. CONTINGENCIES (Continued)

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 owes \$541 as a result of the 2015 enrollment review. The School does not anticipate any significant adjustments to State funding for the fiscal year 2016.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)**

The discussion and analysis of the Hardin Community School's (the "School") financial performance provides an overall review of the School's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the School's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School's financial performance.

Financial Highlights

Key financial highlights for 2014 are as follows:

- In total, net cash position was \$390,821 at June 30, 2014.
- The School had operating revenues of \$258,242 and operating expenses of \$185,306 for fiscal year 2014.
- The School also received \$57,926 in non-operating federal grants during fiscal year 2014.
- Total change in net cash position for fiscal year 2014 was an increase of \$130,862, from a beginning balance of \$259,959 to a balance of \$390,821.

Using these Cash Basis Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the School's financial activities. The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis provide information about the activities of the School.

Reporting the School's Financial Activities

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

These documents look at all financial transactions and ask the question, "How did the School do financially during 2014?" The statement of net position – cash basis and statement of revenues, expenses and changes in net position – cash basis answer this question. These statements include only net position using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. This basis of accounting takes into account only the current year's revenues and expenses if the cash is actually received or paid.

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

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

The table below provides a summary of the School's net cash position for fiscal years 2014 and 2013.

Net Cash Position		
	2014	2013
Assets:		
Current assets	\$390,821	\$259,959
Total assets	390,821	259,959
Net Cash Position:		
Restricted	11,875	12,823
Unrestricted	378,946	247,136
Total net cash position	\$390,821	\$259,959

Over time, net position can serve as a useful indicator of a government's financial position. Total net cash position of the School increased \$130,862, which represents a 50.34% increase from net cash position at June 30, 2013. A portion of the School's net cash position, \$11,875, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net cash assets of \$378,946 may be used for the School's ongoing operations.

The table below shows the changes in net position for fiscal year 2014 and 2013.

Change in Net Cash Position		
	2014	2013
Operating Revenues:		
Foundation payments	\$252,794	\$248,918
Sales/charges for services	5,448	4,625
Other		8,691
Total operating revenues	258,242	262,234
Operating Expenses:		
Purchased services	163,080	186,192
Materials and supplies	15,366	41,727
Capital outlay	1,495	44,196
Other	5,365	334
Total operating expenses	185,306	272,449
Non-operating revenues:		
Federal grants	57,926	143,458
Total non-operating revenues	57,926	143,458
Change in net cash position	130,862	133,243
Net cash position at beginning of year	259,959	126,716
Net cash position at end of year	\$390,821	\$259,959

The decrease in expenses was primarily in the areas of capital outlays and costs for materials and supplies. The School received less funding from Federal programs, specifically the Public Charter School Grant, during 2014.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(UNAUDITED)
(Continued)**

Capital Assets and Debt Administration

Capital Assets

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

Debt Administration

The School does not have any debt obligations outstanding as of June 30, 2014.

Current Financial Related Activities

Effective August 1, 2013, the School's sponsor changed from the Hardin County Educational Service Center to the North Central Ohio Educational Service Center. The School is reliant upon State Foundation monies and Federal Sub-Grants to offer quality, educational services to students.

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

Contacting the School's Financial Management

This financial report is designed to provide our clients and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information contact Alina Nemecek, Treasurer at the North Central Ohio Educational Service Center, Marion Campus, 333 East Center Street, Marion, Ohio 43302.

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**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**STATEMENT OF NET POSITION - CASH BASIS
JUNE 30, 2014**

Assets:

Current assets:

Equity in pooled cash and cash equivalents	\$390,821
Total assets	<u>390,821</u>
Restricted for federal programs	11,875
Unrestricted	<u>378,946</u>
Total net cash position	<u><u>\$390,821</u></u>

See accompanying notes to the basic financial statements.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

Operating Revenues:	
Foundation payments	\$252,794
Sales/charges for services	5,448
Total operating revenues	<u>258,242</u>
Operating Expenses:	
Purchased services	163,080
Materials and supplies	15,366
Capital outlay	1,495
Other	5,365
Total operating expenses	<u>185,306</u>
Operating income	<u>72,936</u>
Non-Operating Revenues:	
Federal and state grants	57,926
Total nonoperating revenues	<u>57,926</u>
Change in net cash position	130,862
Net cash position at beginning of year	<u>259,959</u>
Net cash position at end of year	<u>\$390,821</u>

See accompanying notes to the basic financial statements.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

1. DESCRIPTION OF THE SCHOOL AND REPORTING ENTITY

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

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

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

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

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

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

C. Budgetary Process

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

D. Cash and Cash Equivalents

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

E. Capital Assets

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

F. Inventory and Prepaid Items

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

G. Net Cash Position

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

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

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Operating Revenues and Expenses

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

I. Intergovernmental Revenue

The School currently participates in the State Foundation Program through the Ohio Department of Education. Receipts from this program are recognized as operating receipts in the accounting period in which payment is received by the School. Foundation payments for the fiscal year 2014 amounted to \$252,794.

Grants and entitlements are recognized as non-operating revenues in the accounting period in which they are received. During 2014, the School received \$57,926 in grants and entitlements during fiscal year 2014.

3. ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2014, the School has implemented GASB Statement No. 70, "Accounting and Financial Reporting for Non-exchange Financial Guarantees".

GASB Statement No. 70 improves the recognition, measurement, and disclosures for state and local governments that have extended or received financial guarantees that are non-exchange transactions. The implementation of GASB Statement No. 70 did not have an effect on the financial statements of the School.

B. Compliance

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

4. DEPOSITS AND INVESTMENTS

At June 30, 2014, the carrying amount of the School's deposits was \$390,821. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2014, \$141,733 of the School's bank balance of \$391,733 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Deposit Insurance Corporation.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

4. DEPOSITS AND INVESTMENTS (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.

5. 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.

6. OTHER EMPLOYEE BENEFITS

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

7. MANAGEMENT AGREEMENT

The School entered into a contract effective August 1, 2013 with the North Central Ohio Educational Service Center (Sponsor) for educational and financial management services. The School paid the Sponsor \$8,178 for services provided during fiscal year 2014. Terms of the contract require the Sponsor to provide the following:

- A. All labor, materials, and supervision necessary for the provision of educational services to students, and the management, operation, and maintenance of the School;
- B. 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;
- C. All personnel functions, including professional development for the School principal, all instructional personnel, and support staff;
- D. All aspects of the business administration of the School;
- E. Transportation and food service for the School;
- F. A projected annual budget prior to each fiscal year;

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

7. MANAGEMENT AGREEMENT (Continued)

- G. 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;
- H. Annual audits in compliance with state law and regulations' performances, upon request;
- I. Reports on School operations, finances, and students' performances, upon request; and
- J. Any other function necessary or expedient for the administration of the School.

8. PURCHASED SERVICES

For fiscal year ended June 30, 2014, expenses for purchased services were as follows:

Professional and technical services	\$160,220
Administrative/meeting expenses	<u>2,860</u>
Total	<u><u>\$163,080</u></u>

9. 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 2014 with rent and utilities being \$3,099 and \$715 per month respectively. See Note 12 for detail on in-kind contributions.

10. FISCAL AGENT AND ADMINISTRATIVE SERVICES

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

11. CONTINGENCIES

A. Grants

The School receives financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School at June 30, 2014.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
(Continued)**

11. CONTINGENCIES (Continued)

B. State Foundation Funding

The Ohio Department of Education conducts reviews of enrollment data and full-time equivalency (FTE) calculations made by the schools. These reviews are conducted to ensure the schools are reporting accurate student enrollment data to the State, upon which State foundation funding is calculated. The School has not been reviewed for fiscal year 2014. The School does not anticipate any significant adjustments to State funding for the fiscal year 2015, as a result of the reviews which have yet to be completed.

12. RELATED PARTY TRANSACTIONS

During fiscal year 2014, 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>



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

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the cash-basis financial statements of the Hardin Community School, Hardin County, Ohio (the School) as of and for the fiscal years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the School's basic financial statements and have issued our report thereon dated June 21, 2016, wherein we noted the School uses a special purpose framework other than generally accepted accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the School's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2015-001.

Entity's Response to Findings

The School's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the School's response 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 School's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Dave Yost
Auditor of State
Columbus, Ohio

June 21, 2016

HARDIN COMMUNITY SCHOOL
HARDIN COUNTY

SCHEDULE OF FINDINGS
JUNE 30, 2015 AND 2014

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

FINDING NUMBER 2015-001

Noncompliance Citation

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

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

To help provide the users with more meaningful financial statements, the School should prepare its financial statements according to generally accepted accounting principles.

OFFICIALS' RESPONSE:

The Community School acknowledges the Ohio requirement for GAAP filing. The economic pressures in providing the best possible education to its students and their families preclude the additional expense of an accounting firm to comply with this requirement.

**HARDIN COMMUNITY SCHOOL
HARDIN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2015 AND 2014**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2013-001	Ohio Rev. Code § 117.38 & Ohio Admin. Code § 117-2-03(B) – failed to prepare financial statements using generally accepted accounting principles	No	Repeated as Finding 2015-001



Dave Yost • Auditor of State

HARDIN COMMUNITY SCHOOL

HARDIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 5, 2016**