



**Auditor of State  
Betty Montgomery**



**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER  
LAWRENCE COUNTY**

**TABLE OF CONTENTS**

<b>TITLE</b>	<b>PAGE</b>
Independent Accountants' Report.....	1
General Purpose Financial Statements:	
Combined Balance Sheet – All Fund Types and Account Groups .....	3
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types .....	5
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) – All Governmental Fund Types .....	6
Notes to the General Purpose Financial Statements .....	9
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> .....	27
Schedule of Findings.....	29
Schedule of Prior Audit Findings.....	32

**This page intentionally left blank.**



**Auditor of State  
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT**

Lawrence County Educational Service Center  
Lawrence County  
111 South Fourth Street  
Ironton, Ohio 45638

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Lawrence County Educational Service Center, Lawrence County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lawrence County Educational Service Center, Lawrence County, as of June 30, 2003, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2004 on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Betty Montgomery".

**Betty Montgomery**  
Auditor of State

January 6, 2004

743 E. State St. / Athens Mall Suite B / Athens, OH 45701  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

**This page intentionally left blank.**

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER**  
LAWRENCE COUNTY, OHIO

Combined Balance Sheet  
All Fund Types and Account Groups  
June 30, 2003

	Governmental Fund Types			Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Obligations	
<u>Assets and Other Debits:</u>						
<u>Assets:</u>						
Equity in Pooled Cash and Cash Equivalents	\$332,790	\$48,409	\$126,016	\$0	\$0	\$507,215
Receivables:						
Accounts	800	16,800	0	0	0	17,600
Intergovernmental	20,800	74,070	287,170	0	0	382,040
Accrued Interest	108	0	0	0	0	108
Prepaid Items	13,100	2,396	0	0	0	15,496
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	116,765	0	116,765
<u>Other Debits:</u>						
Amount to be Provided from General Government Resources	0	0	0	0	179,138	179,138
<b>Total Assets and Other Debits</b>	<b>\$367,598</b>	<b>\$141,675</b>	<b>\$413,186</b>	<b>\$116,765</b>	<b>\$179,138</b>	<b>\$1,218,362</b>
<u>Liabilities:</u>						
Accounts Payable	\$13,150	\$5,350	\$0	\$0	\$0	\$18,500
Accrued Wages and Benefits Payable	12,493	19,517	0	0	0	32,010
Compensated Absences Payable	17,889	0	0	0	173,733	191,622
Intergovernmental Payable	2,995	2,460	0	0	5,405	10,860
Deferred Revenue	6,591	70,675	287,170	0	0	364,436
<b>Total Liabilities</b>	<b>53,118</b>	<b>98,002</b>	<b>287,170</b>	<b>0</b>	<b>179,138</b>	<b>617,428</b>
<u>Fund Equity and Other Credits:</u>						
Investment in General Fixed Assets	0	0	0	116,765	0	116,765
Fund Balance:						
Reserved for Encumbrances	15,279	2,209	0	0	0	17,488
Unreserved:						
Undesignated	299,201	41,464	126,016	0	0	466,681
<b>Total Fund Equity and Other Credits</b>	<b>314,480</b>	<b>43,673</b>	<b>126,016</b>	<b>116,765</b>	<b>0</b>	<b>600,934</b>
<b>Total Liabilities, Fund Equity and Other Credits</b>	<b>\$367,598</b>	<b>\$141,675</b>	<b>\$413,186</b>	<b>\$116,765</b>	<b>\$179,138</b>	<b>\$1,218,362</b>

See accompanying notes to the general purpose financial statements

**This page intentionally left blank.**



**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER**  
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2003

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<u>Revenues:</u>				
Intergovernmental	\$602,320	\$163,465	\$126,323	\$892,108
Interest	5,074	0	0	5,074
Tuition and Fees	536,893	0	0	536,893
Customer Services	114,270	108,775	0	223,045
Miscellaneous	34,702	0	0	34,702
<b>Total Revenues</b>	<b>1,293,259</b>	<b>272,240</b>	<b>126,323</b>	<b>1,691,822</b>
<u>Expenditures:</u>				
Current:				
Instruction				
Regular	0	182,620	0	182,620
Adult/Continuing	0	1,132	0	1,132
Support Services				
Pupils	534,451	31,471	0	565,922
Instructional Staff	338,699	49,799	0	388,498
Board of Education	57,941	0	0	57,941
Administration	241,882	61,356	0	303,238
Fiscal	122,193	4,736	0	126,929
Operation and Maintenance of Plant	11,877	0	0	11,877
Central	35,256	3,000	0	38,256
Capital Outlay	0	0	307	307
<b>Total Expenditures</b>	<b>1,342,299</b>	<b>334,114</b>	<b>307</b>	<b>1,676,720</b>
Excess of Revenues Over (Under) Expenditures	(49,040)	(61,874)	126,016	15,102
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	4,912	75,527	0	80,439
Operating Transfers Out	(75,527)	(4,912)	0	(80,439)
<b>Total Other Financing Sources (Uses)</b>	<b>(70,615)</b>	<b>70,615</b>	<b>0</b>	<b>0</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(119,655)	8,741	126,016	15,102
Fund Balance at Beginning of Year	434,135	34,932	0	469,067
<b>Fund Balance at End of Year</b>	<b>\$314,480</b>	<b>\$43,673</b>	<b>\$126,016</b>	<b>\$484,169</b>

See accompanying notes to the general purpose financial statements

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER**  
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual (Budget Basis)  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2003

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$839,356	\$731,656	(\$107,700)
Interest	8,096	4,729	(3,367)
Tuition and Fees	536,893	536,893	0
Customer Services	115,340	119,420	4,080
Miscellaneous	68,745	34,702	(34,043)
<b>Total Revenues</b>	<b>1,568,430</b>	<b>1,427,400</b>	<b>(141,030)</b>
<u>Expenditures:</u>			
Current:			
Instruction			
Regular	17,852	17,852	0
Adult/Continuing	0	0	0
Support Services:			
Pupils	608,586	559,016	49,570
Instructional Staff	342,605	342,605	0
Board of Education	57,588	57,588	0
Administration	257,372	246,008	11,364
Fiscal	120,000	113,567	6,433
Operation and Maintenance of Plant	11,768	11,768	0
Central	38,568	38,568	0
Capital Outlay	0	0	0
<b>Total Expenditures</b>	<b>1,454,339</b>	<b>1,386,972</b>	<b>67,367</b>
Excess of Revenues Over (Under) Expenditures	114,091	40,428	(73,663)
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	0	4,912	4,912
Operating Transfers Out	(75,527)	(75,527)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(75,527)</b>	<b>(70,615)</b>	<b>4,912</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	38,564	(30,187)	(68,751)
Fund Balance at Beginning of Year	328,919	328,919	0
Prior Year Encumbrance Appropriated	9,330	9,330	0
<b>Fund Balance at End of Year</b>	<b>\$376,813</b>	<b>\$308,062</b>	<b>(\$68,751)</b>

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$235,243	\$160,821	(\$74,422)	\$0	\$126,323	\$126,323
0	0	0	0	0	0
0	0	0	0	0	0
58,850	91,975	33,125	0	0	0
0	0	0	0	0	0
294,093	252,796	(41,297)	0	126,323	126,323
165,956	164,160	1,796	0	0	0
1,130	1,130	0	0	0	0
31,470	31,470	0	0	0	0
50,107	50,107	0	0	0	0
0	0	0	0	0	0
63,163	59,243	3,920	154	154	0
4,766	4,766	0	0	0	0
0	0	0	0	0	0
3,000	3,000	0	0	0	0
0	0	0	307	307	0
319,592	313,876	5,716	461	461	0
(25,499)	(61,080)	(35,581)	(461)	125,862	126,323
0	75,527	75,527	0	0	0
(4,912)	(4,912)	0	0	0	0
(4,912)	70,615	75,527	0	0	0
(30,411)	9,535	39,946	(461)	125,862	126,323
24,370	24,370	0	0	0	0
8,902	8,902	0	154	154	0
\$2,861	\$42,807	\$39,946	(\$307)	\$126,016	\$126,323

(Continued)

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER**  
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget and Actual (Budget Basis)  
All Governmental Fund Types  
For the Fiscal Year Ended June 30, 2003  
(Continued)

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$1,074,599	\$1,018,800	(\$55,799)
Interest	8,096	4,729	(3,367)
Tuition and Fees	536,893	536,893	0
Customer Services	174,190	211,395	37,205
Miscellaneous	68,745	34,702	(34,043)
<b>Total Revenues</b>	<b>1,862,523</b>	<b>1,806,519</b>	<b>(56,004)</b>
<u>Expenditures:</u>			
Current:			
Instruction			
Regular	183,808	182,012	1,796
Adult/Continuing	1,130	1,130	0
Support Services:			
Pupils	640,056	590,486	49,570
Instructional Staff	392,712	392,712	0
Board of Education	57,588	57,588	0
Administration	320,689	305,405	15,284
Fiscal	124,766	118,333	6,433
Operation and Maintenance of Plant	11,768	11,768	0
Central	41,568	41,568	0
Capital Outlay	307	307	0
<b>Total Expenditures</b>	<b>1,774,392</b>	<b>1,701,309</b>	<b>73,083</b>
Excess of Revenues Over (Under) Expenditures	88,131	105,210	17,079
<u>Other Financing Sources (Uses):</u>			
Operating Transfers In	0	80,439	80,439
Operating Transfers Out	(80,439)	(80,439)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(80,439)</b>	<b>0</b>	<b>80,439</b>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	7,692	105,210	97,518
Fund Balance at Beginning of Year	353,289	353,289	0
Prior Year Encumbrance Appropriated	18,386	18,386	0
<b>Fund Balance at End of Year</b>	<b>\$379,367</b>	<b>\$476,885</b>	<b>\$97,518</b>

See accompanying notes to the general purpose financial statements

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 1 - REPORTING ENTITY**

The Lawrence County Educational Service Center (the “Educational Service Center”) is located in Ironton, Ohio, the county seat. The Educational Service Center provides supervisory, special education, administrative, and other services to Dawson-Bryant, Fairland, Rock Hill, South Point, and Symmes Valley Local School Districts, as well as the Lawrence County Joint Vocational School District. Ironton City School District and Chesapeake-Union Exempted Village School District are served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Lawrence County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 21 support staff employees and 17 certified administrators that provide services to the school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Lawrence County Educational Service Center, this includes general operations and student related activities.

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes for the organization. The Educational Service Center has no component units.

The Educational Service Center participates in three organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, and the Lawrence County Joint Vocational School District. Information about these organizations is presented in Note 13 to the combined financial statements.

The Educational Service Center participates in three organizations which are defined as insurance purchasing pools, the Ohio School Boards Association Workers’ Compensation Group Rating Plan, the Ohio School Plan and the Lawrence County Schools Insurance Consortium. Information about these organizations is presented in Note 14 to the combined financial statements.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **A. Basis of Presentation - Fund Accounting**

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

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

For financial statement presentation purposes, the various funds of the Educational Service Center are grouped into the following governmental fund types.

### **Governmental Fund Types**

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

#### **General Fund**

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

#### **Special Revenue Funds**

These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

#### **Capital Projects Funds**

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

## **Account Groups**

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

### **General Fixed Assets Account Group**

The general fixed assets account group is used to account for all fixed assets of the Educational Service Center.

### **General Long-Term Obligations Account Group**

The general long-term obligations account group is used to account for all long-term debt of the Educational Service Center.

## **B. Measurement Focus and Basis of Accounting**

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

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

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

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

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

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

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

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

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

### **C. Budgetary Data**

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

The Educational Service Center adopts its budget on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by the Educational Service Center's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised to include the actual beginning of the fiscal year fund balance and accepted by the Board. Both the estimated resources and appropriations may be amended or supplemented throughout the year as circumstances warrant. The estimated revenues which appear on the financial statements reflect estimated resource amounts at the time the final appropriations were passed.

In the first quarter of each fiscal year, the Educational Service Center summarizes and certifies its budget on forms furnished by the State Department of Education, together with such other information as the State Department of Education may require. The summarized budget consists of three parts. Part (A) includes entitlement funding from the State for the cost of salaries, employer's retirement contributions, and travel expenses of supervisory teachers approved by the State Department of Education. Part (B) includes the cost of all other lawful expenditures of the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Department of Education reviews the budget and certifies to each local board of education under the supervision of the Educational Service Center the amount from part (B) that is to be apportioned to their district.

### **Appropriations**

The annual appropriation resolution is enacted by the Educational Service Center at the fund level of expenditures. When necessary, the Educational Service Center passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The Educational Service Center limits the amount of the appropriations by fund to the amount of estimated resources, and the sum of expenditures plus encumbrances to the amount of each appropriation. Any revisions that alter the total of any fund appropriation are approved by the Educational Service Center Board.

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



### **Encumbrances**

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

### **Lapsing of Appropriations**

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

### **D. Cash and Cash Equivalents**

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to repurchase agreements and certificates of deposit which are reported at cost.

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$5,074, which includes \$721 assigned from other Educational Service Center funds.

### **E. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

### **F. Inventory**

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. The Educational Service Center had no inventory items at June 30, 2003.

### **G. Fixed Assets and Depreciation**

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

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Assets in the general fixed assets account group are not depreciated.

### **H. Interfund Assets/Liabilities**

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from/to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables". Long-term interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

### **I. Compensated Absences**

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for employees after 15 years of current service with the Educational Service Center.

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

#### **J. Accrued Liabilities and Long-Term Obligations**

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. In general, amounts paid after sixty days are considered not to have been paid with current available financial resources.

#### **K. Interfund Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

#### **L. Fund Balance Reserves**

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

#### **M. Total Columns on General Purpose Financial Statements**

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

#### **N. Estimates**

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

#### **NOTE 3 - BUDGETARY BASIS OF ACCOUNTING**

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

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

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

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

Excess of Revenues Over (Under) Disbursements  
All Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	(\$119,655)	\$8,741	\$126,016
Adjustments:			
Revenue Accruals	135,668	(19,444)	0
Beginning of Year:			
Prepaid Items	13,630	1,223	0
End of Year			
Unreported Interest	(1,528)	0	0
Prepaid Items	(13,100)	(2,396)	0
Expenditure Accruals	(22,001)	27,013	(154)
Encumbrances	(23,201)	(5,602)	0
Budget Basis	(\$30,187)	\$9,535	\$125,862

**NOTE 4 - DEPOSITS AND INVESTMENTS**

State statutes classify monies held by the Educational Service 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 Educational Service 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 Educational Service Center 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.

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

Protection of Educational Service 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.

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;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$68,591 and the bank balance was \$238,262. The entire amount of the bank balance was covered by federal depository insurance.

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**Investments:** The Educational Service Center's investments are categorized below to give an indication of the level of risk assumed by the Educational Service Center at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Educational Service Center or its agent in the Educational Service Center's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Educational Service Center's name.

	Category 3	Carrying and Fair Value
Repurchase Agreements	\$438,624	\$438,624

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$507,215	\$0
Investments:		
Repurchase Agreements	(438,624)	438,624
GASB Statement 3	\$68,591	\$438,624

**NOTE 5 - STATE FUNDING**

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$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 Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service 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.

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 6 - RECEIVABLES**

Receivables at June 30, 2003, consisted of accounts (customer services) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Community Alternative Funding System	\$20,800
Special Revenue Funds:	
Safe, Drug Free Community Service Grant	3,395
Wellness Grant	55,675
Dental Sealant	15,000
Total Special Revenue Funds	74,070
Capital Projects Fund:	
Emergency Repair Grant	287,170
Total All Funds	\$382,040

**NOTE 7 - FIXED ASSETS**

A summary of the changes in general fixed assets during fiscal year 2003 follows:

<u>Asset Category</u>	<u>Balance at 06/30/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 06/30/03</u>
Furniture, Fixtures and Equipment	\$100,215	\$23,271	\$6,721	\$116,765

Offices utilized by the Educational Service Center have been provided by the Lawrence County Commission.

**NOTE 8 - RISK MANAGEMENT**

During fiscal year 2003, the Educational Service Center joined together with other school districts and educational service centers in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district or educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 14).

The types and amounts of coverage provided by the Ohio School Plan are as follows:

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products – Complete Operations Aggregate Limit	1,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	1,000,000

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

Per Disease Each Employee	1,000,000
Per Disease Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Excess Liability:	
Each Occurrence	2,000,000
Aggregate Limit	2,000,000

Settled claims have not exceeded this commercial coverage in any of the past five years. There has not been a significant reduction in coverage from the prior year.

For fiscal year 2003, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating educational service centers and school districts is calculated as one experience and a common premium rate is applied to all educational service centers and school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to educational service centers and school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The Educational Service Center participates in the Lawrence County Schools Insurance Purchasing Consortium (Consortium), an insurance purchasing pool (Note 14). The intent of the Consortium is to achieve the benefit of a reduced health insurance premium for the School District by virtue of its grouping and representation with other participants in the consortium. Each participant pays its health insurance premium to the insurance provider that has been selected by the Consortium. Participation in the Consortium is limited to school districts that can meet the criteria outlined in the Consortium's operating articles. The firm of Cross and Associates provides administrative services to the Consortium.

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. 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 43215-3371 or by calling (614) 227-4090.

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 member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity



**NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)**

**A. State Teachers Retirement System (Continued)**

factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% 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 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. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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 dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salaries. The School District was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. For fiscal year 2002, the portion used to fund pension obligations was 9.5 percent. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The School District's required contributions for pension obligations to the DB Plan for the fiscal years ended June 30, 2003, 2002, and 2001 were \$99,550, \$72,994, and \$46,242, respectively; 96 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001. There were no contributions to the DC and Combined Plans for fiscal year 2003.

**B. School Employees Retirement System**

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability 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, Columbus, Ohio 43215-3476.

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2003, 8.17 percent of annual covered payroll was the portion used to fund pension obligations. For fiscal year 2002, 5.46

**NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)**

**B. School Employees Retirement System (Continued)**

percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002, and 2001 were \$14,755, \$22,260, and \$25,170, respectively; 100 percent has been contributed for fiscal years 2003, 2002, and 2001.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$7,273 for fiscal year 2003.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2002, (the latest information available) the balance in the Fund was \$3.011 billion. For the year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000 and STRS had 105,300 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll, a decrease of 2.71 percent from fiscal year 2002. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2003 fiscal year equaled \$26,083.

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 10 - POSTEMPLOYMENT BENEFITS (Continued)**

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2002 (the latest information available), were \$182,946,777 and the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTE 11 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn twenty days of vacation per calendar year. Unused vacation time is lost at December 31.

Employees earn sick leave at the rate of fifteen days per year. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for one-half of accrued, but unused sick leave credit to a maximum of 90 days.

**B. Health Care Benefits**

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio Healthcare Benefits. The Service Center pays sixty-five percent of monthly premiums, or \$634.12 for family coverage and sixty-five percent of monthly premiums, or \$256.72 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries. The Service Center also provides prescription drug insurance to its employees through the same insurance carrier.

**NOTE 12 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2003 were as follows:

	Outstanding 06/30/02	Additions	Deductions	Outstanding 06/30/03
Compensated Absences	\$162,844	\$19,719	\$8,830	\$173,733
Intergovernmental Payable	161,228	5,405	161,228	5,405
Total General Long Term Obligations	<u>\$324,072</u>	<u>\$25,124</u>	<u>\$170,058</u>	<u>\$179,138</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid. The intergovernmental payable represents contractually required pension contributions paid outside the available period and will be paid from the fund from which the person is paid.

**NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS**

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts and educational service centers within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts and educational service centers. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts, annual fees for educational service centers set by the governing board, and State funding. The Educational Service Center paid \$9,204 for services provided during fiscal year 2003. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

The Lawrence County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from Chesapeake Union Exempted Village School District, two from the Ironton City School District, and two from the Lawrence County Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Lawrence County Joint Vocational School District, 11627 State Route 243, Chesapeake, OH 45619. The Educational Service Center made no payments to the Joint Vocational School District in Fiscal Year 2003.

Pilasco-Ross is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents. Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the South Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. During fiscal year 2002, the School District paid \$19,423 to Pilasco-Ross. Dawson-Bryant Local School District serves as the fiscal agent for Pilasco-Ross. Financial information can be obtained by contacting Jim Tordiff, Treasurer, 222 Lane Street, Coal Grove, Ohio 45638.

**NOTE 14 - INSURANCE PURCHASING POOLS**

The School District participates in the Ohio School Plan (OSP), an insurance purchasing pool. The Ohio School Plan (OSP) is created and organized pursuant to and as authorized by Section 2744.081 of the Ohio Revised Code. The OSP is an unincorporated, non-profit association of its members and an instrumentality for each member for the purpose of enabling members of the Plan to provide for a formalized, joint insurance purchasing program to maintain adequate insurance protection, risk management programs and other administrative services. The OSP's business and affairs are conducted by a fifteen member Board of directors consisting of school district superintendents and treasurers, as well as the president of Harcum-Hyre Insurance Agency, Inc. and a partner of the Hylant Group, Inc. Hylant Group, Inc. is the Administrator of the OSP and is responsible for processing claims. Harcum-Hyre Insurance Agency, Inc. is the sales and marketing representative, which establishes agreements between OSP and member schools.

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 14 - INSURANCE PURCHASING POOLS (Continued)**

President of the OSBA. The Executive Director of the OSBA, or his designee, serves as the coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

The Educational Service Center participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

**NOTE 15 - CONTINGENCIES**

**A. Grants**

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2003.

**B. Litigation**

The Lawrence County Educational Service Center is currently party to pending litigation. The Educational Service Center cannot evaluate the likelihood of a favorable or unfavorable outcome, or the amount or range of any possible loss.

**NOTE 16 - STATE SCHOOL FUNDING DECISION**

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...". The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

**NOTE 17 – SUBSEQUENT EVENT**

On September 18, 2003, the Educational Service Center awarded bids for the renovation of the Alternative School. The Contracts awarded were:

Vendor	Contract	Amount
Ferguson Brothers	Plumbing	\$143,400
McDaniel Electric, Inc.	Electric	183,700
Ferguson Brothers	HVAC	37,645

Lawrence County Educational Service Center  
Notes to the General Purpose Financial Statements  
For the Fiscal Year Ended June 30, 2003

---

**NOTE 18 – WELLNESS BLOCK GRANT**

The Wellness Block Grant is contained in the Prevention, Retention, and Contingency Plan set up by Lawrence County (the County) for their Temporary Assistance for Needy Families (TANF) funding. The County determined that the Wellness funds were to be given to the County Job and Family Services Department. Job and Family services then had the Appalachian Family and Children First Council (FCFC) act as a pass through for the funding to specific contractors they selected to provide the services.

The Appalachian FCFC required all possible contractors to submit proposals for what programs they would provide with Wellness funds and then the Appalachian FCFC chose to allocate the monies to the different providers. When this determination was made, the Appalachian FCFC sent out a letter stating how much each provider was allocated to spend on the services they provided.

The ESC submitted a proposal to do the ARCH program, which included programs such as PRIDE, Leadership camps, and Baby Think It Over. The Educational Service Center was awarded up to \$55,675 to spend on these programs.

Revenues	\$ 0
Expenditures:	
Instruction:	
Adult/Continuing	\$1,130
Support Services:	
Instructional Staff	\$44,655
Administration	\$3,209
Fiscal Services	\$470
Total Expenditures	\$49,464
Excess of Revenues Over (Under) Expenditures	(\$49,464)
Transfer In	\$49,804
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$340
Fund Balance at Beginning of Year	\$0
Fund Balance at End of Year	\$340
Outstanding Encumbrances at June 30, 2003	\$470

As of June 30, 2003, the Educational Service Center had not received their reimbursement from the Appalachian FCFC. The Educational Service Center requested and received \$55,675 in reimbursement from the FCFC on October 22, 2003. This represents an over reimbursement of \$5,741 repayable to the FCFC.



**Auditor of State  
Betty Montgomery**

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

Lawrence County Educational Service Center  
Lawrence County  
111 South Fourth Street  
Ironton, Ohio 45638

To the Board of Education:

We have audited the accompanying general purpose financial statements of Lawrence County Educational Service Center, Lawrence County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2003, and have issued our report thereon dated January 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2003-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated January 6, 2004.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2003-001 and 2003-2002.

743 E. State St. / Athens Mall Suite B / Athens, OH 45701  
Telephone: (740) 594-3300 (800) 441-1389 Fax: (740) 594-2110  
[www.auditor.state.oh.us](http://www.auditor.state.oh.us)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are not material weaknesses. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated January 6, 2004.

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

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

**Betty Montgomery**  
Auditor of State

January 6, 2004



**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
--

**FINDING 2003-001**

**Reportable Condition**

The Board of Education approved appropriations along with an annual budget they submitted to the Ohio Department of Education. The Educational Service Center intended to use these two documents as a tool to monitor revenues and expenditures. However, certain deficiencies were noted in the Educational Service Center's budgetary process. They were as follows:

1. The Educational Service Center did not input the approved budget into the system for revenues or expenditures. Without the approved figures in the system, the Treasurer was not able to properly monitor budget versus actual figures.
  
2. The Board was not presented with a budget versus actual statement each month. Without receiving this type of report, the Board was unable to monitor budget versus actual variances. Without proper monitoring, they would not be aware if any amendments were necessary to appropriations or their budget.

As a result of these deficiencies noted above, the Educational Service Center's expenditures exceeded the approved budget as follows:

October 02	November 02	March 03
Fund 024 : \$31,645	Fund 024 : \$40,223	Fund 024 : \$75,424
Fund 463 : \$55,242	Fund 463 : \$68,297	Fund 463 : \$139,894

We recommend the Treasurer enter the budgeted amounts as approved by the Board. These amounts must not only agree in total, but also agree to the detail as presented and approved by the Board. The budget should be entered in a timely manner to serve as a monitoring tool for management. Any and all amendments approved by the Board should be entered into the system in a timely manner. We further recommend the Board be given monthly budget versus actual statements for their review.

**FINDING 2003-002**

**Reportable Condition**

The Educational Service Center received funding through the Community Alternative Funding Program (CAFS) for services provided by their employees to the various school districts' students. The funding, which is paid through Medicaid, is reimbursed based on paperwork filled out by Educational Service Center employees stating what services were given to each of the students. This paperwork is submitted by the employees to the Treasurer's office, who then forwards it onto Health Care Billing Services.

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
--

**FINDING 2003-002  
(Continued)**

**Reportable Condition (Continued)**

This company was hired by the Educational Service Center to do all the billing and reporting required by Medicaid for reimbursement. However, the Treasurer's office had no controls in place over this process to ensure the information submitted to Health Care Billing Services was properly documented and accurately stated. They also had no monitoring controls in place to ensure that Health Care Billing Services was properly billing Medicaid and that they were receiving proper reimbursement for their expenses. Without proper monitoring of the billings done by Health Care Billing Services, the Educational Service Center cannot ensure they are receiving the proper amount of CAFS funding.

We recommend the Educational Service Center begin reviewing all paperwork filled out by the Educational Service Center employees prior to submitting to Health Care Billing Services. Copies of this paperwork should be maintained on file in the Treasurer's office for review purposes. We would further recommend the Educational Service Center begin monitoring Health Care Billing Service Reports to ensure monies received agree to the amounts billed. This process should included ensuring that the billings are in line with what was originally submitted.

**FINDING 2003-003**

**Finding for Recovery Repaid Under Audit**

The Educational Service Center has a contract with the Appalachian Family and Children First Council (FCFC) to administer activities funded by the FCFC's Wellness Block Grant. The goal of the Wellness Block Grant is to prevent out-of-wedlock pregnancies in Lawrence County. Lawrence County has chosen to meet this goal by developing Project ARCH (Adopting Rights Choices and Habits).

The Educational Service Center's role in Project ARCH focuses on providing self-esteem and building programs and activities in Lawrence County schools, as well as leadership camps. Students in this program learn to practice decision-making skills in numerous areas including pregnancy prevention.

The program is set up so that the Educational Service Center needs to obtain approval from the FCFC for each outing and the student participants for each outing prior to starting a project. Once approval has been received by the FCFC then services can be provided. After services have been provided the Educational Service Center sends a bill for reimbursement to the FCFC.

One of the activities that the Educational Service Center organized was a camp outing to Canter Caves. Prior to the camp outing the Educational Service Center obtained approval for the outing and the number of student participants from the FCFC. Center Caves sent an estimated bill to the Educational Service Center of what the camp outing would cost. The Educational Service Center sent the estimate to the FCFC and the FCFC paid the estimate when received. The actual invoice received by the Educational Service Center from Center Caves however, was \$8,500 less than the estimate and less than the amount the FCFC had reimbursed the Educational Service Center.

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER  
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS  
JUNE 30, 2003  
(Continued)**

<p><b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b></p>
---

**FINDING 2003-003  
(Continued)**

**Finding for Recovery Repaid Under Audit (Continued)**

The Educational Service Center requested reimbursement from the FCFC for Wellness Block Grant expenditures that it did not incur. The Educational Service Center's total request for reimbursement submitted to the FCFC included \$8,500 that was not an actual expenditure. The only support for this amount provided by the Educational Service Center was an invoice from Canter Caves that showed a total cost of \$16,120 and a credit of \$8,500. This left a balance of \$7,620, which was actually paid by the Educational Service Center during the fiscal year. However, the Educational Service Center included the \$8,500 credit in its total expenditure amount for which it requested reimbursement from the Educational Service Center. This made the total amount requested by the Educational Service Center for reimbursement \$58,434 but the actual amount spent equal to \$49,934. However, the Educational Service Center was only reimbursed for the maximum amount allotted of \$55,675. This meant that the Educational Service Center was reimbursed for a total of \$5,741 over what it actually spent.

In accordance with the foregoing facts, and pursuant to Ohio Rev. Code Section 117.28, a Finding for Recovery for public money due but not collected is hereby issued against the Lawrence County Educational Service Center in the amount of \$5,741 in favor of the Appalachian FCFC.

On January 22, 2004, the Educational Service Center paid the Appalachian FCFC \$5,741, check number 13683. The Appalachian FCFC received the check on January 27, 2004.

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER  
LAWRENCE COUNTY**

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

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <b><i>Explain:</i></b>
2002-17440-001	Non-compliance of Ohio Revised Code § 3309.23 addressing lack of payment of School Employees Retirement System monies	Yes	
2002-17440-002	Material Weakness over Fixed Assets	No	Partially corrected. The only portion not corrected was the fixed asset policy. We have reissued that in the management letter for this fiscal year.
2002-17440-003	Budgetary Monitoring	No	Not corrected. Reissued as finding 2003-001.



**Auditor of State  
Betty Montgomery**

88 East Broad Street  
P.O. Box 1140  
Columbus, Ohio 43216-1140  
Telephone 614-466-4514  
800-282-0370  
Facsimile 614-466-4490

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER**

**LAWRENCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
FEBRUARY 10, 2004**