

Lawrence County Educational Service Center

Lawrence County, Ohio

Regular Audit

July 1, 2007 through June 30, 2008

Fiscal Year Audited Under GAGAS: 2008



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Members of the Board
Lawrence County Educational Service Center
111 South 4th Street, 3rd Floor
Ironton, Ohio 45638

We have reviewed the *Independent Auditor's Report* of the Lawrence County Educational Service Center prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2007 through June 30, 2008. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lawrence County Educational Service Center is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

May 11, 2009

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Lawrence County Educational Service Center
Lawrence County, Ohio

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Independent Auditor's Report

Members of the Board
Lawrence County Educational Service Center
111 South 4th Street 3rd Floor
Ironton, Ohio 45638

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lawrence County Educational Service Center (the Center), as of and for the year ended June 30, 2008, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2008, and the respective changes in financial position, where applicable, 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 February 27, 2009 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Educational Service Center of Lorain County
Independent Auditor's Report
Page 2

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements. The supplementary information on pages 31 through 34 provides additional information and is not a required part of the basic financial statements. We subjected the supplementary information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 13, the Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pension (OPEB)*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
February 27, 2009

Lawrence County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

The discussion and analysis of the Lawrence County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2008. The intent of this discussion and analysis is to look at the Educational Service Center'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 Educational Service Center's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2008 are as follows:

- Net assets of governmental activities decreased \$653.
- General revenues accounted for \$329,828 in revenue or 19% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$1,363,548 or 81% of total revenues of \$1,693,376.
- The Educational Service Center had \$1,694,029 in expenses related to governmental activities; only \$1,363,548 of these expenses was offset by program revenues.
- The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$1,698,805 and expenditures of \$1,645,750.

USING THIS ANNUAL FINANCIAL REPORT

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

The statement of net assets and statement of activities provide information about the activities of the whole Educational Service Center, presenting both an aggregate view of the Educational Service Center's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the Educational Service Center's most significant funds with all other non-major funds presented in total in one column.

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for educational services, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2008?" The statement of net assets and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the statement of net assets and the statement of activities, all of the Educational Service Center's programs and services are reported as governmental activities including instruction and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major funds begins on page 7. Fund financial statements provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses a number of funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the general fund and the alternative school special revenue fund.

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

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net assets for 2008 as compared to 2007.

Table 1
Net Assets

	Governmental Activities	
	2008	2007
Assets		
Current and Other Assets	\$ 239,419	\$ 156,831
Capital Assets	417,200	426,640
Total Assets	<u>656,619</u>	<u>583,471</u>
Liabilities		
Long-term Liabilities	174,260	139,034
Current and Other Liabilities	128,254	89,679
Total Liabilities	<u>302,514</u>	<u>228,713</u>
Net Assets		
Invested in Capital Assets	417,200	426,640
Restricted	13,325	-
Unrestricted (Deficit)	(76,420)	(71,882)
Total Net Assets	<u>\$ 354,105</u>	<u>\$ 354,758</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2008, the Educational Service Center's assets exceeded liabilities by \$354,105. Current and other assets increased \$82,588 offset by an increase in current and other liabilities of \$38,575 and in long-term liabilities of \$35,226. Overall, net assets decreased \$653 from 2007 to 2008. The increase in current and other assets was due mainly to increases in cash and cash equivalents due mainly to relatively consistent revenues offset by decreased expenditures between years. The increase in current and other liabilities was due mainly to an increase in accounts payable. The increase in long-term liabilities is due to increased compensated absences.

Lawrence County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2008
Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2008 as compared to 2007.

Table 2
Changes in Net Assets

	Governmental Activities	
	2008	2007 *
Revenues		
Program Revenues		
Charges for Services	\$ 1,203,466	\$ 1,198,251
Operating Grants and Contributions	160,082	145,455
Total Program Revenues	1,363,548	1,343,706
General Revenues		
Grants and Entitlements	310,989	378,389
Investment Earnings	1,951	7,433
Gain on Trade-in of Capital Asset	3,613	-
Miscellaneous	13,275	14,582
Total General Revenues	329,828	400,404
Total Revenues	1,693,376	1,744,110
Program Expenses		
Instruction:		
Regular	275,693	277,857
Support Services:		
Pupils	508,395	625,026
Instructional Staff	331,827	386,762
Board of Education	47,239	61,922
Administration	281,046	255,708
Fiscal	166,461	138,337
Business	117	270
Operation and Maintenance of Plant	26,245	21,077
Central	57,006	62,241
Extracurricular Activities	-	4,629
Total Expenses	1,694,029	1,833,829
Increase/(Decrease) in Net Assets	(653)	(89,719)
Net Assets, Beginning of Year	354,758	444,477
Net Assets, End of Year	\$ 354,105	\$ 354,758

* Certain reclassifications were made for consistency in comparison.

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 99% of total governmental revenue. Revenue from charges for services and operating grants and contributions remained fairly stable during fiscal year 2008. General revenue grants and entitlements decreased \$67,400 primarily due to decreases in state foundation payments and a decrease in revenue for the support of an intern psychologist.

Total expenses decreased by \$139,800 from 2007 to 2008. The largest expense of the Educational Service Center is for support services, which totaled \$1,418,336 or 84% of total governmental expenses for fiscal year 2008. The largest decreases in expenses were seen in support services for pupils due primarily to decreased expenditures for salaries and benefits.

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

The majority of total governmental expenses of \$1,694,029 were offset by program revenues of \$1,363,548 and general revenues of \$329,828. Program revenues supported 80% of the total governmental expenses.

The statement of activities shows the cost of program services and the charges for services, operating grants and contributions offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by fees charged for services provided and operating grants and contributions.

Table 3
Governmental Activities

	Total Cost of Services 2008	Net Cost of Services 2008	Total Cost of Services 2007	Net Cost of Services 2007
Program Expenses				
Instruction:				
Regular	\$ 275,693	\$ (20,967)	\$ 277,857	\$ 24,550
Support Services:				
Pupils	508,395	118,547	625,026	198,623
Instructional Staff	331,827	83,591	386,762	127,886
Board of Education	47,239	12,528	61,922	20,502
Administration	281,046	70,363	255,708	83,428
Fiscal	166,461	45,499	138,337	50,319
Business	117	117	270	270
Operation and Maintenance of Plant	26,245	7,312	21,077	3,473
Central	57,006	13,491	62,241	19,209
Extracurricular Activities	-	-	4,629	1,522
Totals	\$1,694,029	\$ 330,481	\$ 1,833,829	\$ 529,782

THE EDUCATIONAL SERVICE CENTER FUNDS

The Educational Service Center has two major funds: the general fund and the alternative school special revenue fund. The general fund had \$1,387,102 in revenues and \$1,379,943 in expenditures. Intergovernmental revenue decreased \$67,400 primarily due to a decrease in state foundation payments and a decrease in revenue for the support of an intern psychologist. These decreases were partially offset by increases charges for services and contract services. Expenditures for support services for pupils decreased \$130,885 primarily as a result of a decrease in salaries and benefits reflecting changing staffing needs. Overall, the fund balance of the general fund increased \$7,159.

The largest change in fund balance occurred in the alternative school fund, showing an increase in fund balance of \$33,094. This was primarily due to an increase in charges for services of \$33,744 reflecting an increase in tuition revenue. Expenditures remained consistent with fiscal year 2007.

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2008

Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2008, the Educational Service Center had \$417,200 invested in leasehold improvement and furniture, fixtures, and equipment. For additional information on capital assets, see Note 5 to the basic financial statements. Table 4 shows fiscal year 2008 balances compared to 2007.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2008	2007
Leasehold Improvement	\$393,600	\$401,800
Furniture, Fixtures and Equipment	23,600	24,840
Totals	<u>\$417,200</u>	<u>\$426,640</u>

Changes in capital assets from the prior year resulted from additions, deletions and depreciation.

DEBT

The Educational Service Center did not have any debt outstanding as of June 30, 2008. For information regarding other long term obligations, please see Note 9 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Teresa Lawless, Treasurer at Lawrence County Education Service Center, 111 South 4th Street, Ironton, Ohio 45638.

Lawrence County Educational Service Center

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 184,634
Accounts Receivable	54,785
Depreciable Capital Assets, Net	<u>417,200</u>
<i>Total Assets</i>	<u>656,619</u>
Liabilities	
Accounts Payable	48,821
Accrued Wages and Benefits Payable	35,664
Intergovernmental Payable	43,769
Long-Term Liabilities:	
Due within One Year	43,242
Due in More than One Year	<u>131,018</u>
<i>Total Liabilities</i>	<u>302,514</u>
Net Assets	
Invested in Capital Assets	417,200
Restricted for:	
Other Purposes	13,325
Unrestricted (Deficit)	<u>(76,420)</u>
<i>Total Net Assets</i>	<u>\$ 354,105</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 275,693	\$ 191,583	\$ 105,077	\$ 20,967
Support Services:				
Pupils	508,395	364,284	25,564	(118,547)
Instructional Staff	331,827	238,876	9,360	(83,591)
Board of Education	47,239	33,402	1,309	(12,528)
Administration	281,046	199,696	10,987	(70,363)
Fiscal	166,461	116,401	4,561	(45,499)
Business	117	-	-	(117)
Operation and Maintenance of Plant	26,245	18,219	714	(7,312)
Central	57,006	41,005	2,510	(13,491)
Totals	\$ 1,694,029	\$ 1,203,466	\$ 160,082	(330,481)
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				310,989
Investment Earnings				1,951
Gain on Trade-in of Capital Assets				3,613
Miscellaneous				13,275
<i>Total General Revenues</i>				<u>329,828</u>
<i>Change in Net Assets</i>				(653)
<i>Net Assets at Beginning of Year</i>				<u>354,758</u>
<i>Net Assets at End of Year</i>				<u>\$ 354,105</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center

Balance Sheet

Governmental Funds

June 30, 2008

	General Fund	Alternative School Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 160,030	\$ 14,652	\$ 9,952	\$ 184,634
Receivables:				
Accounts	53,245	1,540	-	54,785
<i>Total Assets</i>	<u>\$ 213,275</u>	<u>\$ 16,192</u>	<u>\$ 9,952</u>	<u>\$ 239,419</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 48,754	\$ 67	\$ -	\$ 48,821
Accrued Wages and Benefits Payable	26,453	9,211	-	35,664
Intergovernmental Payable	40,229	3,540	-	43,769
Deferred Revenue	53,245	-	-	53,245
<i>Total Liabilities</i>	<u>168,681</u>	<u>12,818</u>	<u>-</u>	<u>181,499</u>
Fund Balances				
Reserved for Encumbrances	3,251	-	7,022	10,273
Unreserved, Undesignated, Reported in:				
General Fund	41,343	-	-	41,343
Special Revenue Funds	-	3,374	2,928	6,302
Capital Projects Funds	-	-	2	2
<i>Total Fund Balances</i>	<u>44,594</u>	<u>3,374</u>	<u>9,952</u>	<u>57,920</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 213,275</u>	<u>\$ 16,192</u>	<u>\$ 9,952</u>	<u>\$ 239,419</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
*Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2008*

Total Governmental Fund Balances	\$	57,920
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		417,200
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Charges for Services	47,560	
Miscellaneous	5,685	
Total	53,245	53,245
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences Payable		(174,260)
 <i>Net Assets of Governmental Activities</i>	 \$	 <u><u>354,105</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	General Fund	Alternative School Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 350,648	\$ 78,988	\$ 41,435	\$ 471,071
Interest	1,951	-	-	1,951
Charges for Services	508,366	189,740	-	698,106
Contract Services	511,329	-	-	511,329
Tuition and Fees	-	1,540	-	1,540
Rent	7,218	-	-	7,218
Miscellaneous	7,590	-	-	7,590
<i>Total Revenues</i>	<u>1,387,102</u>	<u>270,268</u>	<u>41,435</u>	<u>1,698,805</u>
Expenditures				
Current:				
Instruction:				
Regular	36,854	229,619	-	266,473
Support Services:				
Pupils	467,884	-	26,560	494,444
Instructional Staff	334,403	-	-	334,403
Board of Education	47,239	-	-	47,239
Administration	267,653	7,555	-	275,208
Fiscal	145,288	-	-	145,288
Business	117	-	-	117
Operation and Maintenance of Plant	25,005	-	-	25,005
Central	55,500	-	2,073	57,573
<i>Total Expenditures</i>	<u>1,379,943</u>	<u>237,174</u>	<u>28,633</u>	<u>1,645,750</u>
<i>Net Change in Fund Balances</i>	7,159	33,094	12,802	53,055
<i>Fund Balances at Beginning of Year</i>	<u>37,435</u>	<u>(29,720)</u>	<u>(2,850)</u>	<u>4,865</u>
<i>Fund Balances at End of Year</i>	<u>\$ 44,594</u>	<u>\$ 3,374</u>	<u>\$ 9,952</u>	<u>\$ 57,920</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2008*

Net Change in Fund Balances - Total Governmental Funds	\$	53,055
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:		
Capital Asset Additions	8,008	
Depreciation Expense	<u>(17,448)</u>	(9,440)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:		
Charges for Services	(14,727)	
Miscellaneous	<u>5,685</u>	
Total		(9,042)
 Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:		
Increase in Compensated Absences		<u>(35,226)</u>
 <i>Change in Net Assets of Governmental Activities</i>	 \$	 <u><u>(653)</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

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 22 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 ensure 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 instructional and support services.

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 two organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association and the Lawrence County Joint Vocational School District. Information about these organizations is presented in Note 10 to the basic 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 Program, the Ohio School Plan and the Lawrence County Schools Insurance Purchasing Consortium. Information about these organizations is presented in Note 11 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with accounting principles generally accepted in the United States of America (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.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

The Educational Service Center's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the Educational Service Center as a whole. The statement of net assets presents the financial condition of governmental activities of the Educational Service Center at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Educational Service Center's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program. Revenues which are not classified as program revenues are presented as general revenues of the Educational Service Center. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Educational Service Center.

Fund Financial Statements:

During the year, the Educational Service Center segregates transactions related to certain Educational Service Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Educational Service Center at this more detailed level. The focus of fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The Educational Service Center's funds are all classified as governmental.

Governmental Funds

Governmental funds are those through which all governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Educational Service Center has two major governmental funds:

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.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Alternative School Fund

A fund used to account for alternative educational programs for existing and new at-risk and delinquent youth. Programs shall be focused on youth in one or more of the following categories: those who have been expelled or suspended, those who have dropped out of school or who are at risk of dropping out of school, those who are habitually truant or disruptive, or those on probation or on parole from a Department of Youth Services facility.

The other governmental funds of the Educational Service Center account for grants and other resources whose use is restricted to a particular purpose.

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Educational Service Center are included on the statement of net assets. The statement of activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues-Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "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 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. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted. Eligibility requirements also include 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. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Deferred Revenue 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.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt and capital lease obligations, which is recorded when due, (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities as payments come due each period upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. 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 financial statements.

During fiscal year 2008, investments were limited to 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 2008 amounted to \$1,951.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

F. Capital Assets and Depreciation

All of the Educational Service Center's capital assets are general capital assets resulting from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five 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.

All capital assets are depreciated. Improvements are depreciated over the remaining life of the related capital asset. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Leasehold Improvement	50 years
Furniture, Fixtures, and Equipment	5-15 years

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Interfund Balances

Receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental activities column of the statement of net assets. The Educational Service Center did not have any interfund receivables/Payables as of June 30, 2008.

H. 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 10 years of current service with the Educational Service Center.

I. Accrued Liabilities and Long-Term Obligations

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

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 that will be paid from governmental funds upon the occurrence of employee resignations and retirements are reported as a liability in the fund financial statements. Bonds, long-term loans, and capital leases are recognized as a liability on the fund financial statement when due.

J. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the statement of activities. The Educational Service Center had no interfund transactions for the fiscal year ended June 30, 2008.

K. Fund Balance Reserves

The Educational Service Center records reservations for portions of fund balance 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 balance which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted for specific purposes.

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

Of the Educational Service Center's \$13,325 of restricted net assets, none are restricted by enabling legislation.

NOTE 3 - 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 monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or 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, its political subdivisions, or other units or agencies of this State or its political subdivisions;

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the Educational Service Center lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the Educational Service Center's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Educational Service Center's total average portfolio.

Protection of the 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.

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.

Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Educational Service Center's deposits may not be returned to it. According to state law, public depositories must give security for all public funds on deposit in excess of those funds that are insured by the Federal Deposit Insurance Corporation (FDIC) or by any other agency or instrumentality of the federal government. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by the FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. The Educational Service Center's policy is to deposit money with financial institutions that are able to abide by the laws governing insurance and collateralization of public funds.

As of June 30, 2008, the Educational Service Center's bank balance of \$277,444 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 4 - 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.

NOTE 5 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2008 follows:

	Balance at 6/30/2007	Additions	Deletions	Balance at 6/30/2008
Capital Assets:				
Depreciable Capital Assets:				
Leasehold Improvement	\$ 410,000	\$ -	\$ -	\$ 410,000
Furniture, Fixtures, and Equipment	132,271	8,008	(8,943)	131,336
Total Depreciable Capital Assets	<u>542,271</u>	<u>8,008</u>	<u>(8,943)</u>	<u>541,336</u>
Less Accumulated Depreciation:				
Leasehold Improvement	(8,200)	(8,200)	-	(16,400)
Furniture, Fixtures, and Equipment	(107,431)	(9,248)	8,943	(107,736)
Total Accumulated Depreciation	<u>(115,631)</u>	<u>(17,448) *</u>	<u>8,943</u>	<u>(124,136)</u>
Total Capital Assets being Depreciated, Net	<u>426,640</u>	<u>(9,440)</u>	<u>-</u>	<u>417,200</u>
Capital Assets, Net	<u>\$ 426,640</u>	<u>\$ (9,440)</u>	<u>\$ -</u>	<u>\$ 417,200</u>

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 5 - CAPITAL ASSETS (continued)

*Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$	9,220
Support Services:		
Pupils		305
Instructional Staff		273
Administration		2,005
Fiscal		4,076
Operation and Maintenance of Plant		1,240
Central		329
Total Depreciation Expense	\$	17,448

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

The Educational Service Center provides an Alternative School Program; however the Educational Service Center does not own the building where the Program is located. The building is leased from Dawson Bryant Local School District. The asset has been recorded as a leasehold improvement and depreciated over the remaining useful life of the building.

NOTE 6 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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 11).

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

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 6 - RISK MANAGEMENT (continued)

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

For fiscal year 2008, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). 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 ensures 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 11). The intent of the Consortium is to achieve the benefit of a reduced health insurance premium for the Educational Service Center 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.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

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, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per 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 can be obtained by contacting SERS, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling toll free (800) 878-5853. It is also posted on SERS' website, at www.ohsers.org, under *Forms and Publications*.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Educational Service Center's contributions to SERS for the fiscal years ended June 30, 2008, 2007 and 2006 were \$30,524, \$39,431, and \$48,506, respectively; 56% has been contributed for fiscal year 2008 and 100% for the fiscal years 2007 and 2006.

State Teachers Retirement System

State Teachers Retirement System of Ohio (STRS Ohio) is a cost-sharing, multiple-employer public employee retirement system.

STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, community school, college, university, institution or other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

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

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

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

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

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

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

A 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. 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.

For the fiscal year ended June 30, 2008, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent. The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2008, 2007, and 2006 were \$109,467, \$115,927, and \$89,295, respectively; 85% has been contributed for the fiscal year 2008 and 100% for the fiscal year 2007 and 2006.

STRS Ohio issues a stand-alone financial report. Additional information or copies of STRS Ohio's Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio website at www.strsoh.org.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2008, no members of the Board of Education had elected Social Security.

B. Postemployment Benefits

State Teachers Retirement System

STRS Ohio administers a pension plan that is comprised of: a defined benefit plan; a self-directed defined contribution plan; and a combined plan, which is a hybrid of the defined benefit and defined contribution plan.

Ohio law authorizes STRS Ohio to offer a cost-sharing, multiple-employer health care plan. STRS Ohio provides access to health care coverage to eligible retirees who participated in the defined benefit or combined plans. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. Pursuant to Section 3307 of the Revised Code, the Retirement Board has discretionary authority over how much, if any, of the associated health care costs will be absorbed by STRS Ohio. All benefit recipients, for the most recent year, pay a portion of the health care costs in the form of a monthly premium.

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2008, 2007 and 2006. For the Educational Service Center, these amounts equaled \$8,313, \$8,281, and \$6,378 for fiscal years 2008, 2007, and 2006, respectively.

School Employees Retirement System

Postemployment Benefits

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2008 was \$96.40; SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2008, 2007, and 2006, the actuarially required allocations were 0.66 percent, 0.68 percent, and 0.78 percent, respectively. For the Educational Service Center, contributions for the fiscal years ended June 30, 2008, 2007, and 2006 were \$2,102, \$1,915, and \$2,356, respectively, which equaled the required contributions for those years.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 7 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS (continued)

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 401(h). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2008, 2007, and 2006, the health care allocations were 4.18 percent, 3.32 percent, and 3.42 percent, respectively. The actuarially required contribution (ARC), as of the December 31, 2006 annual valuation (the latest available), was 11.50 percent of covered payroll. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan over a period not to exceed thirty years. For the Educational Service Center, the amounts contributed to fund health care benefits, including the surcharge, during the 2008, 2007, and 2006 fiscal years equaled \$16,336, \$16,146, and \$18,534, respectively.

An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2008, the minimum compensation level was established at \$35,800.

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

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

NOTE 8 - 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.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 8 - EMPLOYEE BENEFITS (continued)

B. Health Care Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through United Healthcare. The Educational Service Center pays sixty-five percent of monthly premiums, or \$718.83, for family coverage and sixty-five percent of monthly premiums, or \$290.93, for individual coverage. Premiums are paid from the same funds that pay the employees' salaries. The Educational Service Center also provides prescription drug insurance to its employees through the same insurance carrier.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2008 were as follows:

	Outstanding 06/30/07	Additions	Deductions	Outstanding 06/30/08	Due in One Year
Compensated Absences	\$139,034	\$174,260	\$139,034	\$174,260	\$43,242

Compensated absences will be paid from the fund from which the employees' salaries are paid.

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association (SCOCA) – SCOCA is a jointly governed organization among public school districts and educational service centers within the boundaries of Gallia, Pickaway, Vinton, Jackson, 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 eleven 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 \$17,010 for services provided during fiscal year 2008. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

Lawrence County Joint Vocational School District – 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 2008.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2008

NOTE 11 - INSURANCE PURCHASING POOLS

The Educational Service Center 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 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 12 - 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 would not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2008.

B. Litigation

The Educational Service Center is not currently a party to any pending litigation.

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLES

For the fiscal year 2008, the Educational Service Center implemented GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. GASB Statement No. 45 establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year balances.

Lawrence County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
GENERAL FUND
For the Fiscal Year Ended June 30, 2008

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
RECEIPTS:				
Intergovernmental	\$ 386,052	\$ 386,052	\$ 350,648	\$ (35,404)
Interest	2,032	2,032	1,951	(81)
Rent	19,416	19,416	18,641	(775)
Charges for Services	533,216	533,216	520,450	(12,766)
Contract Services	511,329	511,329	511,329	-
Miscellaneous	17,182	17,182	7,582	(9,600)
Total Receipts	1,469,227	1,469,227	1,410,601	(58,626)
DISBURSEMENTS:				
Current:				
Instruction:				
Regular	41,536	41,536	41,536	-
Support Services:				
Pupils	462,841	462,841	462,841	-
Instructional Staff	331,300	331,300	331,299	1
Board of Education	46,694	46,694	46,693	1
Administration	265,373	265,373	265,372	1
Fiscal	137,291	137,291	137,291	-
Business	117	117	117	-
Operation and Maintenance of Plant	25,831	25,831	25,831	-
Central	57,945	57,945	57,945	-
Total Disbursements	1,368,928	1,368,928	1,368,925	3
Excess of Receipts Over Disbursements	100,299	100,299	41,676	(58,623)
OTHER FINANCING USES:				
Transfers Out	(91,607)	(91,607)	-	91,607
Total Other Financing Uses	(91,607)	(91,607)	-	91,607
Net Change in Fund Balance	8,692	8,692	41,676	32,984
Fund Balance at Beginning of Year	83,647	83,647	83,647	-
Fund Balance at End of Year	\$ 92,339	\$ 92,339	\$ 125,323	\$ 32,984

See accompanying notes to supplementary information.

Lawrence County Educational Service Center
Schedule of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budget Basis)
ALTERNATIVE SCHOOL FUND
For the Fiscal Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Over/(Under)</u>
	<u>Original</u>	<u>Final</u>		
RECEIPTS:				
Intergovernmental	\$ 81,004	\$ 81,004	\$ 78,988	\$ (2,016)
Tuition and Fees	1,540	1,540	1,540	-
Charges for Services	<u>205,444</u>	<u>205,444</u>	<u>200,292</u>	<u>(5,152)</u>
Total Receipts	287,988	287,988	280,820	(7,168)
DISBURSEMENTS:				
Current:				
Instruction:				
Regular	236,127	236,127	235,919	208
Support Services:				
Administration	<u>8,138</u>	<u>8,138</u>	<u>8,131</u>	<u>7</u>
Total Disbursements	<u>244,265</u>	<u>244,265</u>	<u>244,050</u>	<u>215</u>
Net Change in Fund Balance	43,723	43,723	36,770	(6,953)
Fund Balance at Beginning of Year	(23,612)	(23,612)	(23,612)	-
Prior Year Encumbrances Appropriated	<u>214</u>	<u>214</u>	<u>214</u>	<u>-</u>
Fund Balance at End of Year	<u>\$ 20,325</u>	<u>\$ 20,325</u>	<u>\$ 13,372</u>	<u>\$ (6,953)</u>

See accompanying notes to supplementary information.

Lawrence County Educational Service Center

*Notes to Supplementary Information
For the Fiscal Year Ended June 30, 2008*

Note 1 – Budgetary Process

The Educational Service Center is no longer required under State statute to file budgetary information with the State Department of Education. However, the Educational Service Center’s Board does follow the budgetary process for control purposes.

The Educational Service Center’s Governing Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts of estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary schedules reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Governing Board.

The Educational Service Center’s Board adopts an annual appropriation resolution, which is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Governing Board. The level of control has been established by the Governing Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary schedules reflect the amounts on the first appropriation resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary schedules represent the final appropriation amounts passed by the Governing Board during the fiscal year.

Note 2 – Budgetary Basis of Accounting

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon the accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance – budget and actual (budget basis) – for the general fund and the alternative school special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

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

Lawrence County Educational Service Center

*Notes to Supplementary Information
For the Fiscal Year Ended June 30, 2008*

Note 2 – Budgetary Basis of Accounting *(Continued)*

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis schedules for the general fund and the alternative school special revenue fund.

	Net Changes in Fund Balances	
	<u>General</u>	<u>Alternative School</u>
GAAP Basis	\$ 7,159	\$ 33,094
Adjustments:		
Revenue Accruals	23,499	10,552
Expenditure Accruals	14,269	(6,876)
Encumbrances	(3,251)	-
Budget Basis	<u>\$ 41,676</u>	<u>\$ 36,770</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board
Lawrence County Educational Service Center
111 South 4th Street
Ironton, Ohio 45638

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lawrence County Educational Service Center (the Center) as of and for the year ended June 30, 2008, and have issued our report thereon dated February 27, 2009 in which we indicate that the Center implemented GASB Statement No. 50 and No. 45. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Governmental Auditing Standards*.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Center's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies, resulting in more than a remote likelihood that the Center's internal control will not prevent a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Board

Educational Service Center of Lorain County

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Page 2

Compliance and Other Matters

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

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



Balestra, Harr & Scherer, CPAs, Inc.

February 27, 2009



Mary Taylor, CPA
Auditor of State

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
MAY 21, 2009**