



**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

SINGLE AUDIT

FOR THE FISCAL YEAR ENDED JUNE 30, 1999



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Report of Independent Accountants | 1 |
| Combined Balance Sheet - All Fund Types and Account Groups | 4 |
| Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types | 7 |
| Combined Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual (Budget Basis) - All Governmental Fund Types | 8 |
| Statement of Revenues, Expenses and Changes in Fund Equity - Proprietary Fund Type | 10 |
| Statement of Revenues, Expenses and Changes in Fund Equity Budget and Actual (Budget Basis) - Proprietary Fund Type | 11 |
| Statement of Cash Flows - Proprietary Fund Type | 12 |
| Notes to the General Purpose Financial Statements | 13 |
| Schedule of Federal Awards Receipts and Expenditures | 31 |
| Notes to the Schedule of Federal Awards Receipts and Expenditures. | 32 |
| Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 33 |
| Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 35 |
| Schedule of Findings - <i>OMB Circular A-133 Section .505</i> | 37 |

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall, Suite B
Athens, Ohio 45701

Telephone 740-594-3300
800-441-1389

Facsimile 740-594-2110

REPORT OF INDEPENDENT ACCOUNTANTS

Lawrence County Educational Service Center
Lawrence County
111 S. 4th Street
Ironton, Ohio 45638

To the Board of Education:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2000, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a large, stylized flourish at the end.

Jim Petro
Auditor of State

January 28, 2000

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

| | Governmental Fund Types | Proprietary Fund Type | Fiduciary Fund Type | |
|--|------------------------------------|----------------------------------|--------------------------------|-----------------|
| | General | Special Revenue | Enterprise | Agency |
| Assets and Other Debits: | | | | |
| Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$365,980 | \$85,956 | \$16,709 | \$16,254 |
| Accounts Receivable | 0 | 0 | 2,556 | 0 |
| Intergovernmental Receivable | 24,618 | 21,633 | 0 | 0 |
| Accrued Interest Receivable | 3,111 | 0 | 0 | 0 |
| Interfund Receivable | 5,015 | 0 | 0 | 0 |
| Due from Other Funds | 0 | 0 | 0 | 2,396 |
| Inventory Held for Resale | 0 | 0 | 9,393 | 0 |
| Fixed Assets (Net, where applicable, of Accumulated Depreciation) | 0 | 0 | 1,708 | 0 |
| Other Debits: | | | | |
| Amount to be Provided from General Government Resources | 0 | 0 | 0 | 0 |
| Total Assets and Other Debits | \$398,724 | \$107,589 | \$30,366 | \$18,650 |
| Liabilities, Fund Equity and Other Credits: | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$3,234 | \$39,062 | \$12,437 | \$0 |
| Accrued Wages and Benefits Payable | 27,630 | 0 | 0 | 0 |
| Compensated Absences Payable | 20,459 | 0 | 0 | 0 |
| Interfund Payable | 0 | 5,015 | 0 | 0 |
| Due to Other Funds | 0 | 2,396 | 0 | 0 |
| Intergovernmental Payable | 107,462 | 2,548 | 536 | 0 |
| Undistributed Monies | 0 | 0 | 0 | 18,650 |
| Total Liabilities | 158,785 | 49,021 | 12,973 | 18,650 |
| Fund Equity and Other Credits: | | | | |
| Investment in General Fixed Assets | 0 | 0 | 0 | 0 |
| Contributed Capital | 0 | 0 | 2,135 | 0 |
| Retained Earnings: | | | | |
| Unreserved | 0 | 0 | 15,258 | 0 |
| Fund Balance: | | | | |
| Reserved for Encumbrances | 167 | 36,420 | 0 | 0 |
| Unreserved, Undesignated | 239,772 | 22,148 | 0 | 0 |
| Total Fund Equity and Other Credits | 239,939 | 58,568 | 17,393 | 0 |
| Total Liabilities, Fund Equity and Other Credits | \$398,724 | \$107,589 | \$30,366 | \$18,650 |

See accompanying notes to the general purpose financial statements

| General Fixed Assets | General Long-Term Obligations | Totals (Memorandum Only) |
|-------------------------------------|--|---|
| \$0 | \$0 | \$484,899 |
| 0 | 0 | 2,556 |
| 0 | 0 | 46,251 |
| 0 | 0 | 3,111 |
| 0 | 0 | 5,015 |
| 0 | 0 | 2,396 |
| 0 | 0 | 9,393 |
| 111,699 | 0 | 113,407 |
| 0 | 217,274 | 217,274 |
| \$111,699 | \$217,274 | \$884,302 |

| | | |
|------------------|------------------|------------------|
| \$0 | \$0 | \$54,733 |
| 0 | 0 | 27,630 |
| 0 | 211,574 | 232,033 |
| 0 | 0 | 5,015 |
| 0 | 0 | 2,396 |
| 0 | 5,700 | 116,246 |
| 0 | 0 | 18,650 |
| 0 | 217,274 | 456,703 |
| 111,699 | 0 | 111,699 |
| 0 | 0 | 2,135 |
| 0 | 0 | 15,258 |
| 0 | 0 | 36,587 |
| 0 | 0 | 261,920 |
| 111,699 | 0 | 427,599 |
| \$111,699 | \$217,274 | \$884,302 |

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

| | General | Special Revenue | Totals (Memorandum Only) |
|---------------------------------------|------------------|----------------------------|---|
| Revenues: | | | |
| Intergovernmental | \$970,932 | \$359,048 | \$1,329,980 |
| Charges for Services | 232,828 | 0 | 232,828 |
| Interest | 20,945 | 0 | 20,945 |
| Tuition and Fees | 6,638 | 0 | 6,638 |
| Rent | 1,628 | 0 | 1,628 |
| Other | 1,896 | 0 | 1,896 |
| Total Revenues | 1,234,867 | 359,048 | 1,593,915 |
| Expenditures: | | | |
| Current: | | | |
| Instruction | | | |
| Regular | 81,084 | 102,333 | 183,417 |
| Other | 70,043 | 0 | 70,043 |
| Support Services | | | |
| Pupils | 389,197 | 71,484 | 460,681 |
| Instructional Staff | 388,509 | 161,047 | 549,556 |
| Board of Education | 30,301 | 0 | 30,301 |
| Administration | 182,582 | 42,557 | 225,139 |
| Fiscal | 57,864 | 0 | 57,864 |
| Operation and Maintenance of Plant | 26,250 | 0 | 26,250 |
| Central | 62,315 | 5,053 | 67,368 |
| Total Expenditures | 1,288,145 | 382,474 | 1,670,619 |
| Excess of Revenues Under Expenditures | (53,278) | (23,426) | (76,704) |
| Fund Balances at Beginning of Year | 293,217 | 81,994 | 375,211 |
| Fund Balances at End of Year | \$239,939 | \$58,568 | \$298,507 |

See accompanying notes to the general purpose financial statements

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

| | General Fund | | |
|---|-------------------|------------------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Intergovernmental | \$956,824 | \$956,874 | \$50 |
| Charges for Services | 232,828 | 232,828 | 0 |
| Interest | 19,758 | 21,035 | 1,277 |
| Tuition and Fees | 27,557 | 27,557 | 0 |
| Rent | 1,628 | 1,628 | 0 |
| Other | 1,896 | 1,896 | 0 |
| Total Revenues | 1,240,491 | 1,241,818 | 1,327 |
| Expenditures: | | | |
| Current: | | | |
| Instruction | | | |
| Regular | 65,177 | 65,177 | 0 |
| Other | 70,043 | 70,043 | 0 |
| Support Services | | | |
| Pupils | 401,237 | 401,237 | 0 |
| Instructional Staff | 404,982 | 404,982 | 0 |
| Board of Education | 30,613 | 30,613 | 0 |
| Administration | 191,468 | 191,468 | 0 |
| Fiscal | 57,092 | 57,092 | 0 |
| Operation and Maintenance of Plant | 23,448 | 23,448 | 0 |
| Central | 55,534 | 55,534 | 0 |
| Total Expenditures | 1,299,594 | 1,299,594 | 0 |
| Excess of Revenues Over (Under) Expenditures | (59,103) | (57,776) | 1,327 |
| Other Financing Sources (Uses): | | | |
| Advances In | 2,362 | 2,362 | 0 |
| Advances Out | (5,015) | (5,015) | 0 |
| Total Other Financing Sources (Uses) | (2,653) | (2,653) | 0 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (61,756) | (60,429) | 1,327 |
| Fund Balances at Beginning of Year | 415,034 | 415,034 | 0 |
| Prior Year Encumbrances Appropriated | 9,416 | 9,416 | 0 |
| Fund Balances at End of Year | \$362,694 | \$364,021 | \$1,327 |

(Continued)

See accompanying notes to the general purpose financial statements

| Special Revenue Funds | | | Totals (Memorandum Only) | | |
|-----------------------|-----------------|----------------------------------|--------------------------|------------------|----------------------------------|
| Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| \$390,977 | \$390,977 | \$0 | \$1,347,801 | \$1,347,851 | \$50 |
| 0 | 0 | 0 | 232,828 | 232,828 | 0 |
| 0 | 0 | 0 | 19,758 | 21,035 | 1,277 |
| 0 | 0 | 0 | 27,557 | 27,557 | 0 |
| 0 | 0 | 0 | 1,628 | 1,628 | 0 |
| 0 | 0 | 0 | 1,896 | 1,896 | 0 |
| 390,977 | 390,977 | 0 | 1,631,468 | 1,632,795 | 1,327 |
| 91,060 | 91,060 | 0 | 156,237 | 156,237 | 0 |
| 0 | 0 | 0 | 70,043 | 70,043 | 0 |
| 87,288 | 87,288 | 0 | 488,525 | 488,525 | 0 |
| 160,626 | 160,626 | 0 | 565,608 | 565,608 | 0 |
| 0 | 0 | 0 | 30,613 | 30,613 | 0 |
| 43,415 | 43,415 | 0 | 234,883 | 234,883 | 0 |
| 0 | 0 | 0 | 57,092 | 57,092 | 0 |
| 0 | 0 | 0 | 23,448 | 23,448 | 0 |
| 5,053 | 5,053 | 0 | 60,587 | 60,587 | 0 |
| 387,442 | 387,442 | 0 | 1,687,036 | 1,687,036 | 0 |
| 3,535 | 3,535 | 0 | (55,568) | (54,241) | 1,327 |
| 5,015 | 5,015 | 0 | 7,377 | 7,377 | 0 |
| (2,362) | (2,362) | 0 | (7,377) | (7,377) | 0 |
| 2,653 | 2,653 | 0 | 0 | 0 | 0 |
| 6,188 | 6,188 | 0 | (55,568) | (54,241) | 1,327 |
| 26,282 | 26,282 | 0 | 441,316 | 441,316 | 0 |
| 4,587 | 4,587 | 0 | 14,003 | 14,003 | 0 |
| \$37,057 | \$37,057 | \$0 | \$399,751 | \$401,078 | \$1,327 |

**STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND EQUITY
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

| | <u>Enterprise</u> |
|---|-------------------------------|
| Operating Revenues: | |
| Tuition | \$39,480 |
| Sales | 19,868 |
| Charges for Services | 8,747 |
| Other Revenues | <u>821</u> |
| Total Operating Revenues | <u>68,916</u> |
| Operating Expenses: | |
| Salaries | 13,947 |
| Fringe Benefits | 624 |
| Purchased Services | 16,887 |
| Materials and Supplies | 16,774 |
| Cost of Sales | 4,999 |
| Depreciation | <u>427</u> |
| Total Operating Expenses | <u>53,658</u> |
| Net Income | 15,258 |
| Retained Earnings at Beginning of Year | <u>0</u> |
| Retained Earnings at End of Year | 15,258 |
| Capital Contributions During the Year | <u>2,135</u> |
| Total Fund Equity at End of Year | <u><u>\$17,393</u></u> |

See accompanying notes to the general purpose financial statements

**STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND EQUITY - BUDGET AND ACTUAL (BUDGET BASIS)
PROPRIETARY FUND TYPE
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

| | Enterprise Fund | | |
|-------------------------------------|---------------------------|-----------------------|---|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Tuition | \$39,296 | \$39,296 | \$0 |
| Sales | 19,868 | 19,868 | |
| Charges for Services | 6,375 | 6,375 | 0 |
| Other Revenues | 821 | 821 | 0 |
| Total Revenues | <u>66,360</u> | <u>66,360</u> | <u>0</u> |
| Expenses: | | | |
| Salaries | 13,947 | 13,947 | 0 |
| Fringe Benefits | 536 | 536 | 0 |
| Purchased Services | 17,286 | 17,286 | 0 |
| Materials and Supplies | 27,223 | 27,223 | 0 |
| Total Expenses | <u>58,992</u> | <u>58,992</u> | <u>0</u> |
| Excess of Revenues Over Expenses | 7,368 | 7,368 | 0 |
| Fund Equity at Beginning of Year | <u>0</u> | <u>0</u> | <u>0</u> |
| Fund Equity at End of Year | <u>\$7,368</u> | <u>\$7,368</u> | <u>\$0</u> |

See accompanying notes to the general purpose financial statements

**Statement of Cash Flows
Proprietary Fund Type
For the Fiscal Year Ended June 30, 1999**

| | Enterprise |
|--|-------------------|
| Increase (Decrease) in Cash and Cash Equivalents: | |
| Cash Flows from Operating Activities: | |
| Cash Received from Customers | \$66,360 |
| Cash Payments to Suppliers for Goods and Services | (35,168) |
| Cash Payments for Employee Services and Benefits | (14,483) |
| Net Cash Provided by Operating Activities | 16,709 |
| Net Increase in Cash and Cash Equivalents | 16,709 |
| Cash and Cash Equivalents at Beginning of Year | 0 |
| Cash and Cash Equivalents at End of Year | \$16,709 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating Income | \$15,258 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Depreciation | 427 |
| Changes in Assets and Liabilities: | |
| Increase in Accounts Receivable | (2,556) |
| Increase in Inventory Held for Resale | (9,393) |
| Increase in Accounts Payable | 12,437 |
| Increase in Intergovernmental Payable | 536 |
| Total Adjustments | 1,451 |
| Net Cash Provided by Operating Activities | \$16,709 |

Non-Cash Transactions:

The Airport Enterprise Fund received \$2,135 in fixed assets from the General Fixed Assets Account Group.

See accompanying notes to the general purpose financial statements

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

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 Educational Service Center also operates the Lawrence County Airport.

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 11 support staff employees and 16 certified administrators that provide services to the school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of the Educational Service Center consists of all funds, departments, boards, and agencies that are not legally separate from the Educational Service Center. For the Lawrence County Educational Service Center, this includes general operations, student related activities and airport 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 is associated with three organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association, Lawrence County Joint Vocational School District and Family and Children First Council of Lawrence County. Information about these organizations is presented in Note 15 to the combined financial statements.

The Educational Service Center is associated with an organization which is defined as an insurance purchasing pool, the Ohio School Boards Association Workers' Compensation Group Rating Plan. Information about this organization is presented in Note 16 to the combined financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Educational Service Center have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Educational Service Center's accounting policies are described below.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting

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

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

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

Governmental Fund Types

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

General Fund

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

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

Proprietary Fund Type

The proprietary fund is used to account for the Educational Service Center's ongoing activities which are similar to those found in the private sector. The following is the Educational Service Center's proprietary fund type:

Enterprise Fund

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation - Fund Accounting (Continued)

Fiduciary Fund Type

The fiduciary fund is used to account for assets held by the Educational Service Center in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. The Educational Service Center's only fiduciary fund is an agency fund. The Educational Service Center's agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

Account Groups

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

B. Measurement Focus and Basis of Accounting

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

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

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

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus and Basis of Accounting (Continued)

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

The accrual basis of accounting is utilized for reporting purposes by the proprietary fund type. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Data

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

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

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

Appropriations

The annual appropriation resolution is legally enacted by the Educational Service Center at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenses of the Educational Service Center. The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation, or alter any total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center.

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Data (Continued)

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

During fiscal year 1999, investments were limited to repurchase agreements and certificates of deposit. These nonparticipating investment contracts 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 1999 amounted to \$20,945, which includes \$2,894 assigned from other Educational Service Center funds.

E. Inventory

Inventories of the proprietary fund are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis. Inventories of the proprietary fund consists of gasoline held for resale and is expensed when used.

F. Fixed Assets and Depreciation

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets and Depreciation (Continued)

Assets in the general fixed assets account group are not depreciated. Depreciation of furniture and equipment in the proprietary fund types is computed using the straight-line method over an estimated useful life of ten years. Improvements to fund fixed assets are depreciated over the remaining useful lives of the related fixed assets.

G. Intergovernmental Revenues

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

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

Entitlements

- General Fund
- State Foundation Program

Non-Reimbursable Grants

- Special Revenue Funds
 - Providing Acceleration in the Classroom Environment
 - Education Management Information Systems
 - Eisenhower
 - Entry Year
 - Parents as Teachers
 - Dental Sealant
 - Drug-Free Schools
 - Preventative Health/Project Arch
 - State/Community Highway Safety
 - Technology Grant

Reimbursable Grants

- General Fund
 - General Education Development Reimbursement
 - Community Alternative Funding System

- Special Revenue Funds
 - Operation ACE

Grants and entitlements amounted to approximately 83 percent of governmental fund revenue during the 1999 fiscal year.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from/to other funds" on the balance sheet. Short-term Interfund loans are classified as "Interfund receivables/payables".

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Compensated Absences

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

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

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

J. Accrued Liabilities and Long-Term Obligations

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

K. Fund Balance Reserves

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

L. Contributed Capital

Contributed capital represents resources from other funds, provided to the proprietary fund that are not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end.

M. Estimates

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Total Columns on General Purpose Financial Statements

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

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types and the Statement of Revenues, Expenses and Changes in Fund Equity - Budget and Actual (Budget Basis), Proprietary Fund Type 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:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures/expenses for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types and as note disclosures in the proprietary fund types (GAAP basis).
4. For the proprietary fund, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

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

| | General | Special Revenue |
|----------------------|------------|--------------------|
| GAAP Basis | (\$53,278) | (\$23,426) |
| Revenue Accruals | 6,951 | 31,929 |
| Expenditure Accruals | (9,490) | 43,931 |
| Advances - In | 2,362 | 5,015 |
| Advances - Out | (5,015) | (2,362) |
| Encumbrances | (1,959) | (48,899) |
| Budget Basis | (\$60,429) | \$6,188 |

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING (Continued)

| Net Income/Excess of Revenues Over Expenses and Transfers Proprietary Fund Type | Enterprise |
|---|------------|
| GAAP Basis | \$15,258 |
| Revenue Accruals | (2,555) |
| Expense Accruals | 4,006 |
| Encumbrances | (9,341) |
| Budget Basis | \$7,368 |

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Educational Service Center into three categories.

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts, including passbook accounts.

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAR Ohio).

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

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

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

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$91,829 and the bank balance was \$242,353. Of the bank balance:

1. \$138,846 was covered by federal depository insurance; and
2. \$103,507 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Educational Service Center to a successful claim by the FDIC.

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

| | Category 3 | Carrying and Fair Value |
|-----------------------|------------|----------------------------|
| Repurchase Agreements | \$393,070 | \$393,070 |

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

Investments: (Continued)

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

| | Cash and Cash Equivalents/Deposits | Investments |
|-----------------------|---------------------------------------|-------------|
| GASB Statement 9 | \$484,899 | \$0 |
| Investments: | | |
| Repurchase Agreements | (393,070) | 393,070 |
| GASB Statement 3 | \$91,829 | \$393,070 |

NOTE 5 - STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$34. 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 6 - RECEIVABLES

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

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 6 - RECEIVABLES (Continued)

| | Amounts |
|-------------------------------------|----------|
| General Fund | |
| County Alternative Funding System | \$20,238 |
| Tuition from School Districts | 4,380 |
| Total General Fund | 24,618 |
| Special Revenue Funds | |
| Parents as Teachers | 9,900 |
| Community Highway Safety | 601 |
| Dental Sealant | 11,132 |
| Total Special Revenue Funds | 21,633 |
| Total Intergovernmental Receivables | \$46,251 |

NOTE 7 - FIXED ASSETS

A summary of the enterprise fund's fixed assets at June 30, 1999, follows:

| | |
|--------------------------------|---------|
| Furniture and Equipment | \$2,135 |
| Less: accumulated depreciation | (427) |
| Net Fixed Assets | \$1,708 |

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

| Asset Category | Balance at 06/30/98 | Additions | Deletions | Balance at 06/30/99 |
|-----------------------------------|---------------------------|-----------|-----------|---------------------------|
| Furniture, Fixtures and Equipment | \$84,632 | \$27,067 | \$0 | \$111,699 |

NOTE 8- 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. During fiscal year 1999, the Educational Service Center contracted with Nationwide Insurance for liability insurance. The policy has no deductible, with a \$1,000,000 single occurrence limit with a \$5,000,000 aggregate limit. The Education Service Center contracted with Aviation Insurance Managers, for a \$1,000,000 policy covering airport property, product and hangar keeper liability. Settled claims have not exceeded this commercial coverage in any of the past five years. There has not been a significant reduction in coverage from the prior year.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 8- RISK MANAGEMENT (Continued)

For fiscal year 1999, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 16). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating educational service centers and school districts is calculated as one experience and a common premium rate is applied to all educational service centers and school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to educational service centers and school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

NOTE 9- DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center participates in the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 E. Broad Street, Columbus, Ohio 43215-3771.

For the fiscal year ended June 30, 1999, plan members were required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 6 percent was the portion used to fund pension obligations. For fiscal year 1998, the portion used to fund pension obligations was 10.5 percent. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's contributions for pension obligations to STRS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$44,783, \$93,453, and \$89,713, respectively; 0 percent has been contributed for fiscal year 1999 and 100 percent for fiscal years 1998 and 1997. \$44,783 representing the unpaid contribution for fiscal year 1999, is recorded as a liability within the respective funds.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by 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 may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 9- DEFINED BENEFIT PENSION PLANS (Continued)

B. School Employees Retirement System (Continued)

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 1999, 7.7 percent of annual covered salary was the portion used to fund pension obligations. For fiscal year 1998, 9.02 percent was used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's contributions for pension obligations to SERS for the fiscal years ended June 30, 1999, 1998, and 1997 were \$14,878, \$17,859, and 15,224, respectively; 100 percent has been contributed for fiscal year 1999, 1998, and 1997.

NOTE 10- POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 1999, the STRS Board allocated employer contributions equal to 8 percent of covered payroll to the Health Care Reserve Fund, an increase from 3.5 percent for fiscal year 1998. For the Educational Service Center, this amount equaled \$59,711 during fiscal 1999.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 1998, (the latest information available) the balance in the Fund was \$2,156 million. For the year ended June 30, 1998, net health care costs paid by STRS were \$219,224,000 and STRS had 91,999 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 1999, employer contributions to fund health care benefits were 6.3 percent of covered payroll, and increase from 4.98 percent for fiscal year 1998. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 1999, the minimum pay has been established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during fiscal year 1999 equaled \$17,873.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 125 percent of annual health care expenses. Expenses for health care for the fiscal year ended June 30, 1998 (the latest information available), were \$111,900,575 and the target level was \$139.9 million. At June 30, 1998 SERS had net assets available for payment of health care benefits of \$160.3 million. SERS has approximately 50,000 participants currently receiving health care benefits.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components 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 180 days for all personnel. Upon retirement, payment is made for one-half of accrued, but unused sick leave credit to a maximum of 90 days.

B. Health Care Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through Blue Cross and Blue Shield of Ohio. The Service Center pays fifty-nine percent of monthly premiums, or \$387.84 for family coverage and fifty-nine percent of monthly premiums, or \$142.22 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 12- LONG-TERM OBLIGATIONS

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

| | Outstanding 6/30/98 | Additions | Deductions | Outstanding 6/30/99 |
|---------------------------|------------------------|-----------------|-----------------|------------------------|
| Compensated Absences | \$226,676 | \$8,166 | \$23,268 | \$211,574 |
| Intergovernmental Payable | 3,877 | 5,700 | 3,877 | 5,700 |
| Total General Long-Term | <u>\$230,553</u> | <u>\$13,866</u> | <u>\$27,145</u> | <u>\$217,274</u> |

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

NOTE 13 - INTERFUND TRANSACTIONS

Due from other funds and due to other funds at June 30, 1999, consist of the following individual balances:

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 13 - INTERFUND TRANSACTIONS (Continued)

| | Interfund Receivable | Interfund Payable | Due from Other Funds | Due to Other Funds |
|---|-------------------------|----------------------|----------------------------|--------------------------|
| General Fund | \$5,015 | \$0 | \$0 | \$0 |
| Special Revenue Funds | | | | |
| Community Highway Safety | 0 | 2,133 | 0 | |
| Dental Sealant | 0 | 2,882 | 0 | 2,396 |
| Total Special Revenue Funds | 0 | 5,015 | 0 | 2,396 |
| Agency Fund | | | | |
| Appalachian Family and Children First Council | 0 | 0 | 2,396 | 0 |
| Total All Funds | <u>\$5,015</u> | <u>\$5,015</u> | <u>\$2,396</u> | <u>\$2,396</u> |

NOTE 14- JOINTLY GOVERNED ORGANIZATIONS

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

The Lawrence County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from Chesapeake Union Exempted Village School District, two from the Ironton City School District, and two from the Lawrence County Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Lawrence County Joint Vocational School District, 11627 State Route 243, Chesapeake, OH 45619.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (Continued)

Family and Children First Council of Lawrence County is a jointly governed organization created under Ohio Revised Code Section 121.37. The Council is made up of the following members: director Alcohol, Drug Addiction and Mental Health Services Board, director of Lawrence County Health Department, commissioner of Ironton Health Department, director of Lawrence County Department of Human Services, director of Children's Services, director of Lawrence County Board of Mental Retardation and Developmental Disabilities, Judge of Lawrence County Juvenile Court, Council member of City of Ironton, Lawrence County Commissioners, director of Department of Youth Services, director of Ironton Lawrence Communication Action Organization Head Start, director of H. E. A. R. T. S. Early Intervention Collaborative Group, director of Family Guidance Center, Superintendent of Collins Career Center, director of Community Action Organization, director of Ohio State University Extension office, director of Child Care Resource Network, director of Community Services for the Deaf and Hard of Hearing, director of Oak Ridge Treatment Center, Superintendent of Fairland Local Schools, director of Integrated Services for Youth, director of Lawrence County Soil and Water Conservation District, President of Ohio University Southern Campus, director of Parents as Teachers, Superintendent of Pilasco-Ross Service Center, director of River valley Health Systems, Superintendent of Rock Hill Local Schools, director of Shawnee Mental Health Center, director of Solutions, Symmes Valley Schools, director of STAR Community Justice Center and at least three representing the interest of families in the county. The Educational Service Center made no contributions to the council during fiscal year 1999. Continued existence of the council is not dependent on the Educational Service Center's continued participation, no equity interest exists, and no debt is outstanding. To obtain financial information, write to the fiscal agent, Lawrence County Education Service Center, 111 4th Street, Ironton, OH 45638.

NOTE 15 - INSURANCE PURCHASING POOL

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.

NOTE 16 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 1999.

B. Litigation

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

NOTE 17 - STATE SCHOOL FUNDING DECISION

On March 24, 1997, the Ohio Supreme Court rendered a decision declaring certain portions of the Ohio school funding plan unconstitutional. The Court stayed the effect of its ruling for one year to allow the State's legislature to design a plan to remedy the perceived defects in that system. Declared unconstitutional was the State's "school foundation program", which provides significant amounts of monetary support to the Educational Service Center. During the fiscal year ended June 30, 1999, the Educational Service Center received \$993,254 of school foundation support for its general fund.

**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

(Continued)

NOTE 17 - STATE SCHOOL FUNDING DECISION (Continued)

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

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

NOTE 18 - SUBSEQUENT EVENTS

As of November 1, 1999, the Lawrence County Educational Service Center canceled its lease with the Lawrence County Commissioners for the operation of the Lawrence County Airpark. All assets and liabilities of the Airpark were transferred to the new lease holder, a non-profit organization set up to operate the airpark.

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

| Federal Grantor/ Pass Through Grantor Program Title | Pass Through Entity Number | Federal CFDA Number | Receipts | Disbursements |
|--|----------------------------------|---------------------------|-------------------------|-------------------------|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | | |
| <i>Passed Through Ohio Department of Health:</i> | | | | |
| Maternal and Child Health Services Block Grant - Wellness Block Grant | N/A | 93.994 | \$116,898 | \$116,898 |
| Wellness Block Grant | N/A | | <u>18,670</u> | <u>18,670</u> |
| Total Wellness Block Grant | | | 135,568 | 135,568 |
| Dental Sealant Grant 1999 | N/A | | 19,382 | 19,382 |
| 1998 | N/A | | <u>15,414</u> | <u>15,414</u> |
| Total Dental Sealant Grant | | | <u>34,796</u> | <u>34,796</u> |
| Total Maternal and Child Health Services Block Grant | | | <u>170,364</u> | <u>170,364</u> |
| Total U. S. Department of Health | | | 170,364 | 170,364 |
| <u>U.S. DEPARTMENT OF EDUCATION</u> | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| Safe and Drug Free Schools and Communities State Grant | DR-S1-98 | 84.186 | 0 | 4,187 |
| | DR-S1-99 | | <u>58,119</u> | <u>34,893</u> |
| Total Safe and Drug Free Schools and Communities State Grant | | | 58,119 | 39,080 |
| Eisenhower Professional Development | MS-S1-97 | 84.281 | 0 | 13,664 |
| | MS-S1-98 | | 46,895 | 51,169 |
| | MS-S1-99 | | <u>68,855</u> | <u>26,503</u> |
| Total Eisenhower Professional Development | | | <u>115,751</u> | <u>91,336</u> |
| Total U. S. Department of Education | | | 173,870 | 130,416 |
| <u>U.S. DEPARTMENT OF TRANSPORTATION</u> | | | | |
| <i>Passed Through Ohio Department of Education:</i> | | | | |
| State and Community Highway Safety | N/A | 20.600 | <u>10,751</u> | <u>10,751</u> |
| Total U.S. Department of Transportation | | | <u>10,751</u> | <u>10,751</u> |
| Total Federal Awards Receipts and Expenditures | | | <u>\$354,985</u> | <u>\$311,531</u> |

The accompanying notes to this schedule are an integral part of this schedule.

**NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 1999**

Note A - Significant Accounting Policies

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Educational Service Center's federal award programs. The Schedule has been prepared on the cash basis of accounting.



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

743 East State Street
Athens Mall, Suite B
Athens, Ohio 45701
Telephone 740-594-3300
800-441-1389
Facsimile 740-594-2110

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

Lawrence County Educational Service Center
Lawrence County
111 S. 4th Street
Ironton, Ohio 45638

To the Board of Education:

We have audited the general purpose financial statements of the Lawrence County Educational Service Center, Lawrence County, Ohio (the Educational Service Center) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 28, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance that we have reported to the management of the Educational Service Center in a separate letter dated January 28, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of the Educational Service Center in a separate letter dated January 28, 2000.

This report is intended for the information and use of the management, the Board of Education 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.

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, sweeping initial "J" and a long horizontal stroke extending to the right.

Jim Petro
Auditor of State

January 28, 2000



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Athens Mall, Suite B
Athens, Ohio 45701
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800-441-1389
Facsimile 740-594-2110

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

Lawrence County Educational Service Center
Lawrence County
111 S. 4th Street
Ironton, Ohio 45638

To the Board of Education:

Compliance

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

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

In our opinion, the Educational Service Center complied, in all material respects, with the requirements referred to above that are applicable its major program for the year ended June 30, 1999. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the Educational Service Center in a separate letter dated January 31, 2000.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the Educational Service Center in a separate letter dated January 28, 2000.

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



Jim Petro
Auditor of State

January 28, 2000

**SCHEDULE OF FINDINGS
OMB CIRCULAR A-133, SECTION .505**

FOR THE YEAR ENDED JUNE 30, 1999

| 1. SUMMARY OF AUDITOR'S RESULTS | | |
|--|--|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weakness conditions reported at financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(iv) | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under Section .510? | No |
| (d)(1)(vii) | Major Programs (list): | Maternal and Child Health Services Block Grant CFDA# 93.994 |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | Yes |

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

None

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 28, 2000**