

Lawrence County Educational Service Center

Lawrence County, Ohio

July 1, 2004 Through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER, CPAs, Inc.

528 S. WEST STREET, P.O. Box 687
PIKETON, OHIO 45661

TELEPHONE (740) 289-4131

FAX (740) 289-3639

www.bhscpas.com



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Lawrence County Educational Service Center, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc. for the audit period July 1, 2004 through June 30, 2005. 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.

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

BETTY MONTGOMERY
Auditor of State

May 19, 2006

This Page is Intentionally Left Blank.

Lawrence County Educational Service Center
Lawrence County, Ohio

Table of Contents

Independent Auditor’s Report	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities	10
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to the Basic Financial Statements	15
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	32

BALESTRA, HARR & SCHERER, CPAs, INC.
528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

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, Lawrence County, Ohio, (the Educational Service Center) as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District'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 *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 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 Educational Service Center, as of June 30, 2005, and the respective changes in financial position and cash flows, 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 March 3, 2006 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered 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 required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Lawrence County Educational Service Center
Independent Auditor's Report
Page 2

As described in Note 3, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *"Deposits and Investments Risk Disclosure"* and GASB Technical Bulletin 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employees*.

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.
March 3, 2006

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

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, 2005. 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 2005 are as follows:

- Net assets of governmental activities decreased \$393,246.
- General revenues accounted for \$704,217 in revenue or 49% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$746,042 or 51% of total revenues of \$1,450,259.
- The Educational Service Center had \$1,843,505 in expenses related to governmental activities; only \$746,042 of these expenses were offset by program specific charges for services.
- The Educational Service Center has three major funds; the General Fund, The Alternative School Special Revenue Fund, and the Emergency Repair Grant Capital Projects Fund. The General Fund had \$1,232,613 in revenues and \$1,568,556 in expenditures. The General Fund's balance decreased \$335,943. The Alternative School Special Revenue Fund had \$211,699 in revenues and \$216,538 in expenditures. The Alternative School fund balance decreased by \$4,839. The Emergency Repair Grant Capital Projects Fund had \$307,406 in revenues and \$240,228 in expenditures. The Emergency Fund's balance increased by \$67,178.

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, 2005

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 2005?" 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 reports 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 School District's most significant funds. The Educational Service Center's major governmental funds are the General Fund, the Alternative School Special Revenue Fund, and the Emergency Repair Grant Capital Projects 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, 2005

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 School District's net assets for 2005 as compared to 2004.

	Net Assets	
	Governmental Activities 2005	Governmental Activities 2004
Assets		
Current and Other Assets	\$280,231	\$876,668
Capital Assets	351,938	189,120
Total Assets	<u>632,169</u>	<u>1,065,788</u>
Liabilities		
Long-term Liabilities	146,168	206,059
Other Liabilities	104,534	85,016
Total Liabilities	<u>250,702</u>	<u>291,075</u>
Net Assets		
Invested in Capital Assets, Net of Debt	351,938	189,120
Restricted	88,907	332,090
Unrestricted	(59,378)	253,503
Total Net Assets	<u>\$381,467</u>	<u>\$774,713</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the Educational Service Center's assets exceeded liabilities by \$381,467.

A portion of the Educational Service Center's net assets, \$88,907, represents resources that are subject to external restriction on how they may be used. These restricted resources are for grants and the alternative education building renovation project.

Lawrence County Educational Service Center

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005 as compared to 2004.

Table 2
Changes in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program Revenues		
Charges for Services and Sales	\$568,528	\$499,797
Operating Grants and Contributions	177,514	119,498
Total Program Revenues	746,042	619,295
General Revenues		
Grants and Entitlements	556,624	1,134,908
Investment Earnings	9	243
Rent	0	1,120
Miscellaneous	147,584	57,890
Total General Revenues	704,217	1,194,161
Total Revenues	1,450,259	1,813,456
Program Expenses		
Instruction:		
Regular	273,881	178,999
Support Services:		
Pupil	688,473	636,577
Instructional Staff	256,748	315,640
Board of Education	51,468	72,235
Administration	277,979	279,859
Fiscal	238,599	266,480
Business	0	488
Operation and Maintenance of Plant	13,194	13,057
Central	42,757	33,181
Extracurricular Activities	406	0
Total Expenses	1,843,505	1,796,516
Increase in Net Assets	(393,246)	16,940
Net Assets, Beginning of Year	774,713	757,773
Net Assets, End of Year	\$ 381,467	\$ 774,713

Net assets of the Educational Service Center's governmental activities decreased \$393,246. Total governmental expenses of \$1,843,505 were offset by program revenues of \$746,042 and general revenues of \$704,217. Program revenues supported 49% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 90% of total governmental revenue. The largest expense of the Educational Service Center is for Support Services. Support Services totaled \$1,569,218 or 86% of total governmental expenses for fiscal year 2005.

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2005

Unaudited

The Statement of Activities shows the cost of program services and the charges for services 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

Table 3
Governmental Activities

	Total Cost of Services <u>2005</u>	Net Cost of Services <u>2005</u>	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
Program Expenses				
Instruction:				
Regular	\$273,881	\$37,945	\$178,999	\$64,005
Support Services:				
Pupil	688,473	460,253	636,577	440,104
Instructional Staff	256,748	170,782	315,640	222,404
Board of Education	51,468	36,470	72,235	50,962
Administration	277,979	185,287	279,859	181,517
Fiscal	238,599	168,637	266,480	186,031
Business	0	0	488	488
Operation and Maintenance of Plant	13,194	9,224	13,057	9,068
Central	42,757	28,459	33,181	22,642
Extracurricular Activities	406	406	0	0
Total	<u>\$1,843,505</u>	<u>\$1,097,463</u>	<u>\$1,796,516</u>	<u>\$1,177,221</u>

THE EDUCATIONAL SERVICE CENTER FUNDS

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$1,805,280 and expenditures of \$2,081,483.

The General Fund showed the largest fund balance fluctuation during the fiscal year, showing a decrease in fund balance of \$335,943. This is due primarily to the decrease in grant monies received.

The Emergency Repair Grant Capital Project major fund showed an increase in fund balance for the current fiscal year of \$67,178. This is due primarily to the increase in grant monies received.

Lawrence County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005
Unaudited*

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2004, the Educational Service Center had \$351,938 invested in furniture and equipment and construction in progress. For additional information on capital assets, see Note 6 to the basic financial statements. Table 4 shows fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2005	2004
Furniture and Equipment	\$39,700	\$53,084
Construction in Progress	312,238	136,036
Totals	<u>\$351,938</u>	<u>\$189,120</u>

Changes in capital assets from the prior year resulted from additions and depreciation. The additions to construction in progress attributed to the significant increase in capital assets for renovations being made to the alternative education program building.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizen's, taxpayers, and 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 Theresa 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, 2005

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$242,498
Accounts Receivable	22,304
Intergovernmental Receivable	15,429
Nondepreciable Capital Assets	312,238
Depreciable Capital Assets, Net	<u>39,700</u>
<i>Total Assets</i>	<u>632,169</u>
Liabilities	
Accounts Payable	3,933
Accrued Wages and Benefits Payable	41,049
Intergovernmental Payable	59,552
Long-Term Liabilities:	
Due within One Year	68,212
Due in More than One Year	<u>77,956</u>
<i>Total Liabilities</i>	<u>250,702</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	351,938
Restricted for:	
Capital Outlay	88,907
Unrestricted (Deficit)	<u>(59,378)</u>
<i>Total Net Assets</i>	<u><u>\$381,467</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June, 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	
Governmental Activities:				
Instruction:				
Regular	\$273,881	\$97,711	\$138,225	(\$37,945)
Support Services:				
Pupils	688,473	211,402	16,818	(460,253)
Instructional Staff	256,748	77,970	7,996	(170,782)
Board of Education	51,468	14,998	0	(36,470)
Administration	277,979	79,596	13,096	(185,287)
Fiscal	238,599	69,824	138	(168,637)
Operation and Maintenance of Plant	13,194	3,970	0	(9,224)
Central	42,757	13,057	1,241	(28,459)
Extracurricular Activities	406	0	0	(406)
Totals	\$1,843,505	\$568,528	\$177,514	(1,097,463)
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				556,624
Investment Earnings				9
Miscellaneous				147,584
<i>Total General Revenues</i>				<u>704,217</u>
<i>Change in Net Assets</i>				(393,246)
<i>Net Assets at Beginning of Year</i>				<u>774,713</u>
<i>Net Assets at End of Year</i>				<u><u>\$381,467</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center

*Balance Sheet
Governmental Funds
June 30, 2005*

	General	Alternative School	Emergency Repair	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$138,815	\$4,151	\$88,907	\$10,625	\$242,498
Receivables:					
Accounts	9,595	12,709	0	0	22,304
Intergovernmental	15,429	0	0	0	15,429
Total Assets	<u>\$163,839</u>	<u>\$16,860</u>	<u>\$88,907</u>	<u>\$10,625</u>	<u>\$280,231</u>
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$479	\$0	\$0	\$3,454	\$3,933
Accrued Wages and Benefits Payable	23,946	17,103	0	0	41,049
Intergovernmental Payable	50,690	8,862	0	0	59,552
Total Liabilities	<u>75,115</u>	<u>25,965</u>	<u>0</u>	<u>3,454</u>	<u>104,534</u>
Fund Balances					
Reserved for Encumbrances	17,157	145	88,905	1,449	107,656
Unreserved, Undesignated, Reported in:					
General Fund	71,567	0	0	0	71,567
Special Revenue Funds	0	(9,250)	0	5,722	(3,528)
Capital Project Funds	0	0	2	0	2
Total Fund Balances	<u>88,724</u>	<u>(9,105)</u>	<u>88,907</u>	<u>7,171</u>	<u>175,697</u>
Total Liabilities and Fund Balances	<u>\$163,839</u>	<u>\$16,860</u>	<u>\$88,907</u>	<u>\$10,625</u>	<u>\$280,231</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, 2005*

Total Governmental Fund Balances	\$175,697
 <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.	351,938
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Compensated Absences Payable	<u>(146,168)</u>
Net Assets of Governmental Activities	<u><u>\$381,467</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, 2005

	General	Alternative School	Emergency Repair	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental	\$643,898	\$89,045	\$307,406	\$48,810	\$1,089,159
Interest	9	0	0	0	9
Charges for Services	428,378	109,945	0	4,752	543,075
Tuition & Fees	0	12,709	0	0	12,709
Rent	12,744	0	0	0	12,744
Miscellaneous	147,584	0	0	0	147,584
<i>Total Revenues</i>	<u>1,232,613</u>	<u>211,699</u>	<u>307,406</u>	<u>53,562</u>	<u>1,805,280</u>
Expenditures					
Current:					
Instruction:					
Regular	23,075	194,400	0	0	217,475
Support Services:					
Pupils	705,850	0	0	33,106	738,956
Instructional Staff	247,801	0	0	15,665	263,466
Board of Education	51,534	0	0	0	51,534
Administration	248,859	22,138	0	4,607	275,604
Fiscal	237,480	0	0	383	237,863
Operation and Maintenance of Plant					
Central	40,357	0	0	2,400	42,757
Extracurricular Activities	406	0	0	0	406
Capital Outlay	0	0	240,228	0	240,228
<i>Total Expenditures</i>	<u>1,568,556</u>	<u>216,538</u>	<u>240,228</u>	<u>56,161</u>	<u>2,081,483</u>
<i>Net Change in Fund Balances</i>	(335,943)	(4,839)	67,178	(2,599)	(276,203)
<i>Fund Balances at Beginning of Year</i>	<u>424,667</u>	<u>(4,266)</u>	<u>21,729</u>	<u>9,770</u>	<u>451,900</u>
<i>Fund Balances at End of Year</i>	<u>\$88,724</u>	<u>(\$9,105)</u>	<u>\$88,907</u>	<u>\$7,171</u>	<u>\$175,697</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, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$276,203)

*Amounts reported for governmental activities in the statement
of activities are different because*

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 capital outlay exceeded depreciation in the current period:

Capital Asset Additions	183,351	
Depreciation Expense	<u>(20,533)</u>	162,818

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants		(355,021)
--------	--	-----------

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:

Intergovernmental Payables	15,269	
Compensated Absences Payable	<u>59,891</u>	<u>75,160</u>

Change in Net Assets of Governmental Activities (\$393,246)

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, 2005

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 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 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 three organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, and the Lawrence County Joint Vocational School District. Information about these organizations is presented in Note 13 to the 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 Plan, the Ohio School Plan and the Lawrence County Schools Insurance Consortium. Information about these organizations is presented in Note 15 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, 2005

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 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 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 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 Centers' funds are all classified as governmental.

Governmental Funds

Governmental funds are those through which most 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 three 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, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Alternative School Grant 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.

Emergency Repair Grant Fund

Capital projects funds are used to account for financial resources received from the Ohio School Facilities Commission to be used for the renovation of the alternative education program building.

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.

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 basis 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 modified accrual basis when the exchange takes place, provided the resources are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

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

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

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.

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.

D. Budgetary Data

The Educational Service Center adopts its budget for all funds, other than agency funds. The budget includes the estimated resources and expenditures for each fund and consists of three parts; Part (A) includes entitlement funding from the State, Part (B) includes the cost of all other lawful expenditures of the Educational Service Center (which are apportioned by the State Department of Education to each local board of education under the supervision of the Educational Service Center), and Part (C) includes the adopted appropriation resolution.

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 Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

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 balance sheet.

During fiscal year 2005, 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 2005 amounted to \$9.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fixed assets are recorded at their fair market values as of the date received. The Lawrence County Educational Service Center maintains a capitalization threshold of three hundred dollars. The Educational Service Center does not possess any infrastructure.

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

All capital assets, except construction in progress, 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>
Furniture, Fixtures, and Equipment	5-15 years

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.

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 20 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 are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, long-term loans, and capital leases are recognized as a liability on the fund financial statement when due.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Center had no interfund transactions for 2005.

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. 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.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. 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 or 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.

NOTE 3- CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE

For the fiscal year 2005, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 41, "Budgetary Comparison Schedules – Perspective Differences", Statement No. 40, "Deposit and Investment Risk Disclosures", and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liability by Cost-Sharing Employers." GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin and of GASB Statement 40 had no effect on the educational service center's financial statements.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or security 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. Bond and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
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; and
7. The State Treasurer's investment pool (STAR Ohio).
8. Securities lending agreements in which the District 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;

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District'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.

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."

The Educational Service Center's deposits are required to be categorized to give an indication of the level of risk assumed by the Educational Service Center at fiscal year end. Category 1 includes deposits 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 deposits which are held by the counterparty's trust department or agent in the Educational Service Center's name. Category 3 includes uninsured and unregistered deposits 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. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$242,498 and the bank balance was \$341,422. Of the bank balance, \$250,000 was covered by federal depository insurance (Category 1) and \$91,422 was uninsured and uncollateralized (Category 3) and is subject to custodial credit risk. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS (continued)

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the Educational Service Center manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. It is the ESC's policy to limit its investments purchase agreements, certificates of deposits, U.S. Treasury and Agency securities purchased through financial institutions located within the State of Ohio or through primary securities dealers, and other investments relevant to sections of Chapter 135 of the Ohio Revised Code. The ESC has no investments.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the The ESC's investment policy allows investments in purchase agreements, certificates of deposits, U.S. Treasury and Agency securities purchased through financial institutions located within the State of Ohio or through primary securities dealers, and other investments relevant to sections of Chapter 135 of the Ohio Revised Code. The ESC has no investments.

Custodial credit risk is the risk that in the event of the failure of the counterparty, the ESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The ESC has no investments

NOTE 5 - STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased. The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2005 follows:

	Balance at 06/30/04	Additions	Deletions	Balance at 06/30/05
Capital Assets:				
Capital Assets not being Depreciated:				
Construction in Progress	\$136,036	\$176,202	\$0	\$312,238
Depreciable Capital Assets:				
Furniture, Fixtures, and Equipment	122,818	7,149	0	129,967
Total Depreciable Capital Assets	122,818	7,149	0	129,967
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(69,734)	(20,533)	0	(90,267)
Total Accumulated Depreciation	(69,734)	(20,533) *	0	(90,267)
Total Capital Assets being Depreciated, Net	53,084	(13,384)	0	39,700
Capital Assets, Net	\$189,120	\$162,818	\$0	\$351,938

*Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$1,020
Support Services:	
Pupils	2,856
Instructional Staff	2,971
Administration	6,968
Fiscal	6,718
Total Depreciation Expense	\$20,533

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

The ESC provides an Alternative School Program; however the ESC does not own the building where the School is located. The building is leased from Dawson Bryant Local School District. During fiscal year 2004 the ESC received a grant from the Ohio School Facilities Commission to make improvements to the Alternative School building. The project was still in progress as of June 30, 2005, so the costs incurred to date have been capitalized and recorded as construction in progress as of June 30, 2005. At the end of the project the asset will be recorded as a leasehold improvement and depreciated over the remaining useful life of the building.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - RISK MANAGEMENT

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

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

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

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

For fiscal year 2005, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating educational service centers and school districts is calculated as one experience and a common premium rate is applied to all educational service centers and school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to educational service centers and school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The School District participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS Ohio provides retirement and disability benefits, annual cost of living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

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

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. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to 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 Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

The DB 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 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.

The DC Plan 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 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 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 designed beneficiary is entitled to receive the member's account balance.

Member contributions for the Combined Plan Benefits 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.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 8 - DEFINED BENEFIT PENSION PLANS (continued)

Eligible faculty of Ohio 's public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (SRP) offered by their employer. Employees have 120 days from their employment date to select a retirement plan.

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 a money-purchase or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit 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 Defined Benefit 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 Defined Benefit 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.

For fiscal year 2005 plan members are required to contribute 10% of their annual covered salaries. The educational Service Center was required to contribute 14%; 13% was the portion used to fund pension obligations. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$118,583, \$93,866, and \$99,550 respectively; 72 percent has been contributed for fiscal year 2005, and 100 percent for fiscal years 2004 and 2003.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476 or by calling (614)222-5853.

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 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 2005, 10.57 percent of annual covered payroll was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$52,191, \$24,326, and \$14,755, respectively; 68 percent has been contributed for fiscal years 2005 and 100 percent for 2004 and 2003.

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$1,096 for fiscal year 2005.

STRS pays health care benefits from the Health Care Reserve Fund. For the year ended June 30, 2004, net health care costs paid by STRS were \$268,739,000 and STRS had 111,853 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 1 percent of covered payroll. 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 2004, the minimum pay was established at \$27,400. However, the surcharge is capped at 2% of each employer's SERS salaries. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$17,605. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

NOTE 10 - 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, 2005

NOTE 10 - EMPLOYEE BENEFITS (continued)

B. Health Care Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio Healthcare Benefits. The Educational Service Center pays sixty-five percent of monthly premiums, or \$696.53 for family coverage and sixty-five percent of monthly premiums, or \$282.20 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 11 - RECEIVABLES

Receivables at June 30, 2005, consisted of accounts (customer services) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund:	
Community Alternative Funding System	\$15,429
Total All Funds	\$15,429

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2005 were as follows:

	Outstanding 06/30/04	Additions	Deductions	Outstanding 06/30/05	Due in One Year
Compensated Absences	\$206,059	\$146,168	\$206,059	\$146,168	\$68,212

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

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts and educational service centers within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts and educational service centers. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts, annual fees for educational service centers set by the governing board, and State funding. The Educational Service Center paid \$4,110 for services provided during fiscal year 2005. 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 Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 2004.

The Pilasco-Ross Special Education Regional Resource Center - The Pilasco-Ross Special Education Regional Resource Center (Pilasco-Ross) is a special education service center which selects its own board, adopts its own budget and receives direct Federal and State grants for its operation. The jointly-governed organization was formed for the purpose of initiating, expanding, and improving special education programs and services for children with disabilities and their parents.

Pilasco-Ross is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of chartered nonpublic schools, representatives of county boards of MR/DD, Shawnee State University, and the Southeast Regional Professional Development Center whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the fiscal agent, Jim Tordiff, Treasurer, at Dawson-Bryant Local School District, 222 Lane Street, Coal Grove, Ohio 45638.

NOTE 14 - INSURANCE PURCHASING POOLS

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

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

Lawrence County Educational Service Center
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2005.

B. Litigation

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

NOTE 16 - STATE SCHOOL FUNDING DECISION

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

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

BALESTRA, HARR & SCHERER, CPAs, INC.

528 South West Street, P.O. Box 687
Piketon, Ohio 45661

Telephone (740) 289-4131
Fax (740) 289-3639
www.bhscpas.com

Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**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 Educational Service Center), as of and for the year ended June 30, 2005, which collectively comprise the Educational Service Center's basic financial statements as listed in the table of contents, and have issued our report thereon dated March 3, 2006 in which we indicated the District implemented GASB Statement No. 40 and GASB Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 basic financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Lawrence County Educational Service Center
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

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

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

Balestra, Harr & Scherer, CPAs, Inc.

March 3, 2006



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 01, 2006**