



Dave Yost • Auditor of State

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

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Dave Yost • Auditor of State

Report on the Financial Statements, Internal Control, and Compliance

Lawrence County Educational Service Center
Lawrence County
304 N. 2nd Street
Ironton, Ohio 45638

To the Members of the Board of Education:

We have selectively tested certain accounts, financial records, reports and other documentation of the Lawrence County Educational Service Center, Lawrence County, (the Center), as of and for the year ended June 30, 2017. These procedures were designed to satisfy the audit requirements of Section 117.11, Ohio Rev. Code, and Section 117-4-02, Ohio Admin. Code. Our engagement was not designed as a basis to opine on the accompanying financial statements, internal control over financial reporting, or compliance. We therefore express no opinions on these matters.

Internal Control Over Financial Reporting

Certain of the aforementioned tests relate to internal control over financial reporting. The results of those tests may allow us to identify internal control deficiencies. An internal control deficiency exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements, whether caused by error or fraud.

Our internal control tests were not designed to identify all internal control deficiencies that might exist. Therefore, unidentified weaknesses may exist. However, we consider Finding 2017-001 reported in the Schedule of Findings to be an internal control deficiency management and those charged with governance should address.

Compliance and Other Matters

We also tested compliance with certain provisions of laws, regulations, contracts, and grant agreements, applicable to the Center, noncompliance with which could directly and materially affect the determination of financial statement amounts. The results of our tests disclosed instances of noncompliance we believe could directly and materially affect the determination of financial statement amounts, that we reported in the Schedule of Findings as items 2017-001 through 2017-003.

Center's Response to Findings

The Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Center's responses and, accordingly, we express no opinion on them.

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

Dave Yost
Auditor of State

Columbus, Ohio

December 13, 2018

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

As management of the Lawrence County Educational Service Center, we offer the readers of the Educational Service Center's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the basic financial statements to enhance their understanding of the Educational Service Center's performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2017 are as follows:

- Net position of governmental activities decreased \$198,370.
- General cash receipts accounted for \$50,548 or 1.7 percent of all program specific and general cash receipts. Program specific cash receipts in the form of charges for services, sales, grants, and contributions accounted for \$2,850,642 or 98.3 percent of total program specific and general cash receipts.
- The Educational Service Center had \$3,099,560 in cash disbursements; \$2,850,642 of these cash disbursements were offset by program specific charges for services, sales, grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the Educational Service Center's cash basis of accounting.

Report Components

The *Statement of Net Position – Cash Basis* and *Statement of Activities- Cash Basis* provide information about the activities of the Educational Service Center as a whole.

Fund financial statements provide the next level of detail. Funds are created and maintained on the financial records of the Educational Service Center as a way to segregate money whose use is restricted to a particular purpose. These statements present financial information by fund, presenting funds with the largest balances or most activity in separate columns.

The notes to the basic financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the basic financial statements.

Basis of Accounting

The basis of accounting is a set of guidelines that determine when financial events are recorded. The Educational Service Center has elected to present its financial statements on a cash basis of accounting. This basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America. Under the Educational Service Center's cash basis of accounting, receipts and disbursements are recorded when cash is received or paid.

As a result of using the cash basis of accounting, certain assets and their related revenues (such as accounts receivable) and certain liabilities and their related expenses (such as accounts payable) are not recorded in the financial statements. Therefore, when reviewing the financial information and discussion within this report, the reader must keep in mind the limitations resulting from the use of the cash basis of accounting.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during 2017, within the limitations of the cash basis of accounting. The statement of net position presents the cash balances and investments of the governmental activities of the Educational Service Center at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

These statements report the Educational Service Center's cash position and the changes in cash position. It is important to note that fiduciary funds are not included in these statements. Keeping in mind the limitations of the cash basis of accounting, you can think of these changes as one way to measure the Educational Service Center's financial health. Over time, increases or decreases in the Educational Service Center's cash position is one indicator of whether the Educational Service Center's financial health is improving or deteriorating. When evaluating the Educational Service Center's financial condition, you should also consider other non-financial factors as well such as the condition of the Educational Service Center's capital assets and infrastructure, the extent of the Educational Service Center's debt obligations, the reliance on non-local financial resources for operations and the need for continued growth in the major revenue sources.

In the statement of net position and the statement of activities, the Educational Service Center has one type of activity: governmental.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the Educational Service Center's major fund, not the Educational Service Center as a whole. The Educational Service Center uses a number of funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General 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 the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. 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. Since the Educational Service Center is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. See Note 2 to the basic financial statements for more information.

Lawrence County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited*

Fiduciary Funds. Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. The Educational Service Center's fiduciary funds include an agency fund and a component unit agency fund which are used to maintain financial activity of the governments in which the Education Service Center is their fiscal agent. Agency funds are custodial in nature (assets equal net position) and do not involve measurement of results of operations. In accordance with GASB 34, fiduciary funds are not included in the government-wide statements.

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2017 as compared to 2016.

Table 1
Net Position

	Governmental Activities	
	2017	2016
Assets		
Current Assets	\$ 1,477,126	\$ 1,675,496
Total Assets	<u>1,477,126</u>	<u>1,675,496</u>
Net Position		
Restricted	112,090	104,476
Unrestricted	<u>1,365,036</u>	<u>1,571,020</u>
Total Net Position	<u>\$ 1,477,126</u>	<u>\$ 1,675,496</u>

Over time, net position can serve as a useful indicator of a government's financial position. Current assets decreased due to decreases to cash on hand at year end due to cash disbursements exceeding cash receipts.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2017 as compared to 2016.

Table 2
Changes in Net Position

	Governmental Activities	
	2017	2016
Revenues		
Program Cash Receipts		
Charges for Services	\$ 2,541,926	\$ 2,646,635
Operating Grants and Contributions	308,716	338,830
Total Program Cash Receipts	<u>2,850,642</u>	<u>2,985,465</u>
General Cash Receipts		
Grants and Entitlements, Not Restricted	47,769	69,989
Gifts and Donations, Not Restricted	-	4,100
Investment Earnings	1,128	1,581
Refund of Prior Year Expenditures	929	767
Miscellaneous	722	2,284
Total General Cash Receipts	<u>50,548</u>	<u>78,721</u>
Total Cash Receipts	<u>2,901,190</u>	<u>3,064,186</u>
Program Disbursements		
Instruction:		
Regular	147,843	168,159
Special	687,372	828,013
Student Intervention Services	-	5,762
Other	26,011	-
Support Services:		
Pupils	719,199	690,750
Instructional Staff	468,650	487,206
Board of Education	180,238	124,318
Administration	383,302	404,419
Fiscal	253,410	340,192
Operation and Maintenance of Plant	50,946	53,491
Central	171,054	364,990
Capital Outlay	<u>11,535</u>	<u>14,460</u>
Total Cash Disbursements	<u>3,099,560</u>	<u>3,481,760</u>
Increase (Decrease) in Net Position Before Special Items	<u>(198,370)</u>	<u>(417,574)</u>
Special Item	-	342,719
Increase (Decrease) in Net Position	<u>(198,370)</u>	<u>(74,855)</u>
Net Position, Beginning of Year	<u>1,675,496</u>	<u>1,750,351</u>
Net Position, End of Year	<u>\$ 1,477,126</u>	<u>\$ 1,675,496</u>

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

Governmental Activities

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 98.3% of total governmental revenue. Revenue from charges for services decreased during fiscal year 2017. Charges for services and special instruction decreased due to additional services provided to the local districts and the Lawrence County Academy in the prior year, which did not occur at the same level as in 2016.

Total disbursements decreased from 2016 to 2017. The largest disbursements of the Educational Service Center are for support services, which totaled \$2,226,799 or 71.8% of total governmental disbursements for the year. Central decreased due a decrease in purchase services for professional services and rental services. Fiscal decreased as a result of a decrease in salaries and benefits. Fluctuations for disbursements are directly related to the needs of the Educational Service Center's member School Districts.

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

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
	2017	2017	2016	2016
Program Disbursements				
Instruction:				
Regular	\$ 147,843	\$ (20,091)	\$ 168,159	\$ (94,173)
Special	687,372	(124,453)	828,013	(45,848)
Student Intervention Services	-	-	5,762	851
Other	26,011	4,349	-	-
Support Services:				
Pupils	719,199	124,059	690,750	175,052
Instructional Staff	468,650	80,158	487,206	123,762
Board of Education	180,238	31,013	124,318	31,001
Administration	383,302	65,596	404,419	102,368
Fiscal	253,410	41,589	340,192	87,255
Operation and Maintenance of Plant	50,946	6,114	53,491	9,160
Central	171,054	29,049	364,990	92,407
Capital Outlay	11,535	11,535	14,460	14,460
Totals	<u>\$ 3,099,560</u>	<u>\$ 248,918</u>	<u>\$ 3,481,760</u>	<u>\$ 496,295</u>

THE EDUCATIONAL SERVICE CENTER'S FUNDS

The Educational Service Center has one major fund which is the General Fund.

The General Fund had \$2,720,127 in cash receipts and other financing sources and \$2,926,111 in cash disbursements and other financing uses. The net change in fund balance for the General Fund was a decrease of \$205,984.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2017
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Educational Service Center does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The Educational Service Center had \$11,535 in capital outlay disbursements during fiscal year 2017.

DEBT

The Educational Service Center did not have any debt outstanding as of June 30, 2017.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Brenda Hill, Treasurer at Lawrence County Educational Service Center, 304 N. 2nd Street, Ironton, Ohio 45638.

Lawrence County Educational Service Center

Statement of Net Position - Cash Basis

As of June 30, 2017

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,477,126</u>
<i>Total Assets</i>	<u>1,477,126</u>
Net Position	
Restricted for:	
Other Purposes	112,090
Unrestricted	<u>1,365,036</u>
<i>Total Net Position</i>	<u><u>\$ 1,477,126</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2017

	Program Cash Receipts			Net (Cash Disbursements)
	Cash	Charges for	Operating Grants	Cash Receipts and
			and	Changes in
Disbursements	Services	Contributions	Governmental	Net Position
			Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 147,843	\$ 114,807	\$ 53,127	\$ 20,091
Special	687,372	565,612	246,213	124,453
Other	26,011	21,662	-	(4,349)
Support Services:				
Pupils	719,199	591,890	3,250	(124,059)
Instructional Staff	468,650	388,179	313	(80,158)
Board of Education	180,238	149,225	-	(31,013)
Administration	383,302	317,706	-	(65,596)
Fiscal	253,410	208,008	3,813	(41,589)
Operation and Maintenance of Plant	50,946	42,832	2,000	(6,114)
Central	171,054	142,005	-	(29,049)
Capital Outlay	11,535	-	-	(11,535)
Totals	\$ 3,099,560	\$ 2,541,926	\$ 308,716	(248,918)
General Cash Receipts				
Grants and Entitlements not Restricted to Specific Programs				47,769
Investment Earnings				1,128
Refund of Prior Year Expenditures				929
Miscellaneous				722
<i>Total General Cash Receipts</i>				<u>50,548</u>
<i>Change in Net Position</i>				(198,370)
<i>Net Position at Beginning of Year</i>				<u>1,675,496</u>
<i>Net Position at End of Year</i>				<u><u>\$ 1,477,126</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
As of June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,365,036	\$ 112,090	\$ 1,477,126
<i>Total Assets</i>	<u>\$ 1,365,036</u>	<u>\$ 112,090</u>	<u>\$ 1,477,126</u>
Fund Balances			
Restricted	-	112,090	112,090
Committed	50,000	-	50,000
Assigned	148,599	-	148,599
Unassigned	1,166,437	-	1,166,437
<i>Total Fund Balances</i>	<u>\$ 1,365,036</u>	<u>\$ 112,090</u>	<u>\$ 1,477,126</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2017

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts			
Intergovernmental	\$ 293,982	\$ 61,003	\$ 354,985
Interest	1,128	-	1,128
Charges for Services	405,385	135,066	540,451
Contract Services	1,998,690	-	1,998,690
Rent	2,785	-	2,785
Gifts and Donations	-	1,500	1,500
Miscellaneous	722	-	722
<i>Total Cash Receipts</i>	<u>2,702,692</u>	<u>197,569</u>	<u>2,900,261</u>
Cash Disbursements			
Current:			
Instruction:			
Regular	-	147,843	147,843
Special	687,372	-	687,372
Other	26,011	-	26,011
Support Services:			
Pupils	710,199	9,000	719,199
Instructional Staff	467,834	816	468,650
Board of Education	180,238	-	180,238
Administration	383,302	-	383,302
Fiscal	242,744	10,666	253,410
Operation and Maintenance of Plant	45,449	5,497	50,946
Central	171,054	-	171,054
Capital Outlay	9,635	1,900	11,535
<i>Total Cash Disbursements</i>	<u>2,923,838</u>	<u>175,722</u>	<u>3,099,560</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(221,146)</u>	<u>21,847</u>	<u>(199,299)</u>
Other Financing Sources (Uses)			
Advances In	16,506	2,273	18,779
Refund of Prior Year Expenditures	929	-	929
Advances Out	(2,273)	(16,506)	(18,779)
<i>Total Other Financing Sources (Uses)</i>	<u>15,162</u>	<u>(14,233)</u>	<u>929</u>
<i>Net Change in Fund Balances</i>	(205,984)	7,614	(198,370)
<i>Fund Balances at Beginning of Year</i>	<u>1,571,020</u>	<u>104,476</u>	<u>1,675,496</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,365,036</u>	<u>\$ 112,090</u>	<u>\$ 1,477,126</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Fiduciary Net Position - Cash Basis
Agency Funds
June 30, 2017

	Lawrence County School Council of Governments	Component Unit - Lawrence County Academy
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 2,507,196	\$ 189,258
<i>Total Assets</i>	\$ 2,507,196	\$ 189,258
NET POSITION:		
Unrestricted	\$ 2,507,196	\$ 189,258
<i>Total Net Position</i>	\$ 2,507,196	\$ 189,258

See accompanying notes to the basic financial statements.

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Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

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, Ironton City School District, Chesapeake-Union Exempted Village School District, as well as the Collins Career Center. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Lawrence County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four-year terms. The Educational Service Center has 21 support staff employees and 26 certified administrators that provide services to the school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes for the organization. The Educational Service Center has the following component unit:

Lawrence County Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The Academy's objective is to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students. A settlement agreement was signed and the Lawrence County Academy closed as of June 30, 2017. See Note 14 for additional information.

The Educational Service Center participates in three organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association Regional Council of Governments, the Metropolitan Educational Technology Association (META Solutions), and the Collins Career Center. Information about these organizations is presented in Note 9 to the basic financial statements.

The Educational Service Center serves as the fiscal agent for the Lawrence County Schools Council of Governments Health Benefits Program. Accordingly, these organizations are presented as fiduciary funds within the Center's financial statements.

The Educational Service Center participates in three organizations of which two are defined as insurance purchasing pools and one as a shared risk pool: the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan, the Ohio School Plan and the Lawrence County Schools Council of Governments Health Benefits Program. Information about these organizations is presented in Note 10 to the basic financial statements.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its annual financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the Educational Service Center chooses to prepare its financial statements in accordance with the cash basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved). These statements include adequate disclosure of material matters, in accordance with the basis of accounting described above.

As a result of the use of the cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

B. Fund Accounting

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

Governmental Funds

Governmental funds are those through which all governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. The Educational Service Center has the following major governmental fund:

General Fund

The General Fund is the general operating fund of the Educational Service Center and is used to account for all financial resources not accounted for and reported in another fund. The General Fund is available to the Educational Service Center for any purpose provided it is expended or transferred according to the school laws of Ohio.

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

Fiduciary Fund Type

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Center's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Educational Service Center has an agency fund used to account for the activity of the Lawrence County Schools Council of Governments Health Benefits Program.

The Educational Service Center is also reporting the Lawrence County Academy as a component unit agency fund within the Fiduciary Fund Type.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

The Educational Service Center uses the provisions of GASB 34 for financial reporting on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America and GASB 38, for certain financial statement note disclosures. The Educational Service Center's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements that provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the Educational Service Center as a whole. These statements include the financial activities of the primary government, except for fiduciary funds.

The statement of net position-cash basis presents the cash basis financial condition of governmental activities of the Educational Service Center at year-end. The statement of activities-cash basis presents a comparison between direct cash disbursements and program cash receipts for each program or function of the Educational Service Center's governmental activities. Direct cash disbursements are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program cash receipts include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Cash receipts which are not classified as program cash receipts are presented as general cash receipts of the Educational Service Center. The comparison of direct cash disbursements with program cash receipts identifies the extent to which each governmental function is self-financing or draws from the general cash receipts of the Educational Service Center.

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

Cash Receipts – Exchange and Non-exchange Transactions

Cash receipts resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the cash basis when the exchange takes place. On a cash basis, receipts are recorded in the year in which the resources are received.

Non-exchange transactions, in which the Educational Service Center receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On a cash basis, receipts from property taxes are recognized in the year in which the taxes are received. Receipts from grants, entitlements and donations are recognized in the year in which the monies have been received.

Cash Disbursements

On the cash basis of accounting, disbursements are recognized at the time payments are made.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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's records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents" on the financial statements.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. As of June 30, 2017, the Educational Service Center had no investments.

E. Capital Assets and Depreciation

Capital assets acquired or constructed for the Educational Service Center are recorded as disbursements at the time of acquisition. However, under the cash basis of accounting, capital assets and the related depreciation are not reported separately on the financial statements.

F. Compensated Absences

Vacation and sick leave benefits are not accrued under the cash basis of accounting as previously described. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees.

G. Accrued Liabilities and Long-Term Obligations

In general, bonds and capital leases are not accrued, but rather are recorded as cash disbursements in the basic financial statements when paid. The Educational Service Center also does not record premiums and accretion of capital appreciation bonds as assets or liabilities in the accompanying financial statements.

H. Net Position

Net cash position represents the cash assets held by the Educational Service Center at year end. Net position is 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. Restricted for Other Purposes is comprised of net position restricted for state and federal programs. The Educational Service Center applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net position is available. As of June 30, 2017, the Educational Service Center had no net position restricted by enabling legislation.

I. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance classification includes amounts that cannot be spent because they are not in the spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the Educational Service Center Board. Those committed amounts cannot be used for any other purpose unless the Educational Service Center Board removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the Educational Service Center for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by policies of the Educational Service Center Board.

Unassigned Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Educational Service Center applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

J. Pensions

For purposes of measuring the net pension liability, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Under the cash basis of accounting, pension liabilities and associated deferred inflows and outflows of resources are not reported in the accompanying financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
9. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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

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

Deposits: The Educational Service Center has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by eligible securities pledged to and deposited either with the Educational Service Center or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

As of June 30, 2017, the Educational Service Center's bank balance of \$4,033,147 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

The Lawrence County Academy's bank balance of \$189,258 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

NOTE 4 - STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$27. 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, 2017

NOTE 5 - RISK MANAGEMENT

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

The Educational Service Center joined together with other school districts and educational service centers in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district or educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 10).

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

General Liability:	
Each Occurrence	\$3,000,000
Aggregate Limit	5,000,000
Products – Complete Operations Aggregate Limit	3,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	3,000,000
Per Disease Each Employee	3,000,000
Per Disease Policy Limit	3,000,000
Employee Benefits Liability:	
Per Claim	3,000,000
Aggregate Limit	5,000,000

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

For fiscal year 2017, the Educational Service Center participated in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to improve safety, accident prevention, and claims handling for the Educational Service Center. Participation in the GRP is limited to those school districts and educational service centers that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

The Educational Service Center participates in the Lawrence County Schools Council of Governmental Health Benefits Program (Council), a public entity shared risk pool (Note 10), consisting of government entities within the County offering medical insurance to their employees. Monthly premiums are paid to the Lawrence County Educational Service Center as fiscal agent, who in turns pays the claims on the government entity's behalf. The Council is responsible for the management and operations of the program. Upon termination of the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the Plan due up to the date of termination plus extended benefits, if any, provided under the Plan. Such claims and expenses shall be paid from the fund of the Council.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

Under the cash basis of accounting, the Educational Service Center did not record the net pension liability in the accompanying financial statements. The net pension liability represents the Educational Service Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

The Ohio Revised Code limits the Educational Service Center’s obligation for this liability to annually required payments. The Educational Service Center cannot control benefit terms or the manner in which pensions are financed; however, the Educational Service Center does receive the benefit of employees’ services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan’s board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

Plan Description - School Employees Retirement System (SERS)

Plan Description – Educational Service Center non-teaching employees participate in SERS, a cost-sharing multiple-employer defined benefit pension plan administered by SERS. SERS provides retirement, disability and survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Ohio Revised Code Chapter 3309. SERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed information about SERS’ fiduciary net position. That report can be obtained by visiting the SERS website at www.ohsers.org under Employers/Audit Resources.

Age and service requirements for retirement are as follows:

	Eligible to Retire on or before August 1, 2017 *	Eligible to Retire on or after August 1, 2017
Full Benefits	Any age with 30 years of service credit	Age 67 with 10 years of service credit; or Age 57 with 30 years of service credit
Actuarially Reduced Benefits	Age 60 with 5 years of service credit Age 55 with 25 years of service credit	Age 62 with 10 years of service credit; or Age 60 with 25 years of service credit

* Members with 25 years of service credit as of August 1, 2017, will be included in this plan.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - School Employees Retirement System (SERS) (continued)

Annual retirement benefits are calculated based on final average salary multiplied by a percentage that varies based on year of service; 2.2 percent for the first thirty years of service and 2.5 percent for years of service credit over 30. Final average salary is the average of the highest three years of salary.

One year after an effective benefit date, a benefit recipient is entitled to a three percent cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2017, the entire allocation was designated to pension, death benefits, and Medicare B. There was no percentage allocated to the Health Care Fund for fiscal year 2017.

The Educational Service Center's contractually required contribution to SERS was \$70,752 for fiscal year 2017.

Plan Description - State Teachers Retirement System (STRS)

Plan Description – Educational Service Center licensed teachers and other faculty members participate in STRS Ohio, a cost-sharing multiple-employer public employee retirement system administered by STRS. STRS provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about STRS' fiduciary net position. That report can be obtained by writing to STRS, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Web site at www.strsoh.org.

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five years of qualifying service credit, or age 55 with 26 years of service, or 31 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

The DC Plan allows members to place all their member contributions and 9.5 percent of the 14 percent employer contributions into an investment account. Investment allocation decisions are determined by the member. The remaining 4.5 percent of the 14 percent employer rate is allocated to the defined benefit unfunded liability. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal.

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. In the Combined Plan, 12 percent of the 14 percent member rate goes to the DC Plan and the remaining 2 percent is applied to the DB Plan.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Plan Description - State Teachers Retirement System (STRS) (continued)

New members who choose the DC plan or Combined Plan will have another opportunity to reselect a permanent plan during their fifth year of membership. Members may remain in the same plan or transfer to another STRS plan. The optional annuitization of a member's defined contribution account or the defined contribution portion of a member's Combined Plan account to a lifetime benefit results in STRS bearing the risk of investment gain or loss on the account. STRS has therefore included all three plan options as one defined benefit plan for GASB 68 reporting purposes.

A DB or Combined Plan member with five or more years of credited service who is determined to be disabled may qualify for a disability benefit. Eligible survivors of members who die before service retirement may qualify for monthly benefits. New members on or after July 1, 2013, must have at least ten years of qualifying service credit that apply for disability benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. For fiscal year June 30, 2017, the employer rate was 14% and the member rate was 14% of covered payroll. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2017 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS Ohio was \$196,309 for fiscal year 2017.

Net Pension Liability

The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	SERS	STRS	Total
Proportion of the Net Pension Liability - Current Year	0.0187749%	0.01323116%	
Proportion of the Net Pension Liability - Prior Year	<u>0.0189675%</u>	<u>0.01400139%</u>	
Change from Prior Year	<u><u>-0.00019260%</u></u>	<u><u>-0.00077023%</u></u>	
Proportionate Share of the Net Pension Liability	\$1,374,149	\$4,428,868	\$5,803,017

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

SERS' total pension liability was determined by their actuaries in accordance with GASB Statement No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment termination). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2016, are presented below:

Future Salary Increases, including inflation	3.50 percent to 18.20 percent
COLA or Ad Hoc COLA	3.00 percent
Inflation	3.00 percent
Investment Rate of Return	7.50 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal (Level Percent of Payroll)

Mortality rates were based on the RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females.

The most recent experience study was completed for the five-year period ended June 30, 2015.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS (continued)

The long-term return expectation for the Pension Plan Investments has been determined using a building-block approach and assumes a time horizon, as defined in SERS' *Statement of Investment Policy*. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating an arithmetic weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes. The target allocation and best estimates of arithmetic real rates of return for each major assets class are summarized in the following table:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.50 %
US Stocks	22.50	4.75
Non-US Stocks	22.50	7.00
Fixed Income	19.00	1.50
Private Equity	10.00	8.00
Real Estate	15.00	5.00
Multi-Asset Strategy	10.00	3.00
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.50 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.50 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.50 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent), or one percentage point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Educational Service Center's proportionate share of the net pension liability	\$1,819,288	\$1,374,149	\$1,001,550

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS (continued)

Change in Assumptions – The following changes in actuarial assumptions was made during the June 30, 2016 actuarial valuation period:

- Discount rate was reduced from 7.75% to 7.50%
- Assumed rate of inflation was reduced from 3.25% to 3.00%
- Payroll growth assumption was reduced from 4.00% to 3.50%
- Assumed real wage growth was reduced from 0.75% to 0.50%
- Rates of withdrawal, retirement and disability were updated to reflect recent experience
- Mortality among active members was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection and a five-year age set-back for both males and females
- Mortality among service retired members and beneficiaries was updated to the following:
 - RP-2014 Blue Collar Mortality Table with fully generational projection with Scale BB, 120% of male rates, and 110% of female rates
- Mortality among disabled members was updated to the following:
 - RP-2000 Disabled Mortality Table, 90% for male rates and 100% for female rates, and a five-year set-back for the period after disability retirement.

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75 percent
Projected salary increases	2.75 percent at age 70 to 12.25 percent at age 20
Investment Rate of Return	7.75 percent, net of investment expenses
Cost-of-Living Adjustments (COLA)	2 percent simple applied as follows: for members retiring before August 1, 2013, 2 percent per year; for members retiring August 1, 2013, or later, 2 percent COLA paid on fifth anniversary of retirement date.

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above.

Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2016, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

The 10 year expected real rate of return on pension plan investments was determined by STRS' investment consultant by developing best estimates of expected future real rates of return for each major asset class. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized as follows:

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Nominal Rate of Return*</u>
Domestic Equity	31.00 %	8.00 %
International Equity	26.00	7.85
Alternatives	14.00	8.00
Fixed Income	18.00	3.75
Real Estate	10.00	6.75
Liquidity Reserves	<u>1.00</u>	3.00
Total	<u><u>100.00 %</u></u>	

* Includes the real rate of return and inflation of 2.5% and does not include investment expenses. The total fund long-term expected return reflects diversification among the asset classes and therefore is not a weighted average return of the individual asset classes.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2016. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2016. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2016.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Educational Service Center's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.75 percent, as well as what the Educational Service Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6.75 percent) or one-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$5,885,606	\$4,428,868	\$3,200,024

Changes Between Measurement Date and Report Date In March 2017, the STRS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of June 30, 2017. The most significant change is a reduction in the discount rate from 7.75 percent to 7.45 percent. In April 2017, the STRS Board voted to suspend cost of living adjustments granted on or after July 1, 2017. Although the exact amount of these changes is not known, the overall decrease to School District's NPL is expected to be significant.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2017, none of the Educational Service Center's members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 7 - POSTEMPLOYMENT BENEFITS

School Employees Retirement System

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

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. At June 30, 2017, 2016, and 2015, the health care allocations were 0 percent, 0 percent, and 0.82 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2017, the minimum compensation level was established at \$23,500. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the Educational Service Center, the amounts assigned to health care, including the surcharge, during the 2017, 2016, and 2015 fiscal years equaled \$6,583, \$8,230, and \$13,399, respectively; which is equal to the required amounts for those years.

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

The financial reports of SERS' Health Care plan is included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS' website at www.ohsers.org under *Employer/Audit Resources*.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2017*

NOTE 7 - POSTEMPLOYMENT BENEFITS (continued)

State Teachers Retirement System

Plan Description – The Educational Service Center participates in the cost-sharing multiple-employer defined benefit Health Plan administered by the State Teachers Retirement System of Ohio (STRS Ohio) for eligible retirees who participated in the defined benefit or combined pension plans offered by STRS Ohio. Ohio law authorizes STRS to offer this plan. Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. The Plan is included in the report of STRS Ohio which can be obtained by visiting www.strsoh.org or by calling (888) 227-7877.

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2017, STRS Ohio allocated employer contributions equal to 0 percent of covered payroll to post-employment health care. The Educational Service Center's contributions for health care for the fiscal years ended June 30, 2017, 2016, and 2015, were \$0, which equaled the required contributions each year.

NOTE 8 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through the Lawrence County Schools Council of Governments Health Benefits Program. The Educational Service Center pays seventy-five percent of monthly premiums, or \$1,293.88, for family coverage and seventy-five percent of monthly premiums, or \$523.84 for individual coverage for Plan 1. The Educational Service Center pays seventy-five percent of monthly premiums, or \$988.25, for family coverage and seventy-five percent of monthly premiums, or \$400.10 for individual coverage for Plan 2. 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.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 9 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association Regional Council of Governments - The Educational Service Center is a participant in the South Central Ohio Computer Association Regional Council of Governments (SCOCARCoG), which is organized under ORC Code Chapter 167 as a council of governments. SCOCARCoG is an association of public school districts within the boundaries of Pickaway, Gallia, Adams, Brown, Highland, Pike, Ross, Scioto, Vinton, Jackson, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCARCoG consists of two representatives from each county in the SCOCARCoG service region designated by the Ohio Department of Education and two representatives of the school treasurers. The Board exercises total control over the operations of SCOCARCoG including budgeting, appropriating, contracting and designating management. Each School District's degree of control is limited to its representation on the Board.

During fiscal year 2016, SCOCARCoG entered into a merger agreement with Metropolitan Educational Technology Association ("META"). Pursuant to an addendum to the agreement, certain liabilities will remain the sole responsibility of SCOCARCoG, and once these remaining liabilities are satisfied, SCOCARCoG will be dissolved and the member districts will become members of META. SCOCARCoG entered into a subcontract agreement with META to provide services to SCOCARCoG, and on behalf of SCOCARCoG, to the member districts. Consistent with the merger agreement and updated bylaws, SCOCARCoG is currently governed by a four person executive governing board. The School District paid SCOCARCoG \$19,362 for services provided during the fiscal year.

Metropolitan Educational Technology Association - META is an educational solutions partner providing services across Ohio. META provides cost-effective fiscal, network, technology and student services, a purchasing cooperative, and other individual services based on each client's needs.

The governing board of META consists of a president, vice president and six board members who represent the members of META. The board works with META's Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer to manage operations and ensure the continued progress of the organization's mission, vision, and values. The Board exercises total control over the operations of the Council including budgeting, appropriating, contracting and designating management. Each member's degree of control is limited to its representation on the Board. The School District paid META \$10,194 for services provided during the fiscal year. Financial information can be obtained from David Varda, who serves as Chief Financial Officer, at 100 Executive Drive, Marion, Ohio 43302.

Collins Career Center - The Collins Career Center 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 Collins Career Center, 11627 State Route 243, Chesapeake, Ohio 45619. The Educational Service Center made no payments to the Collins Career Center in fiscal year 2017.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 10 - INSURANCE PURCHASING POOLS

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

The Educational Service Center participates in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool. 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.

Lawrence County Schools Council of Governments Health Benefits Program - The Center is a member of the Lawrence County School Council of Governments Health Benefits Program, a shared risk pool created pursuant to State statute for the purpose of administering health care benefits. The Council is governed by a Board of Directors, which consist of the superintendent from each participating member. The Council elects officers for one-year terms to serve on the Board of Directors. The Board of Directors exercises control over the operation of the council. All Council revenues are generated from charges for services received from the participating member, based on the established premiums for the insurance plans. The Lawrence County Educational Service Center is the fiscal agent of the council.

NOTE 11 - 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 are 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, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2017, if applicable, cannot be determined at this time.

B. Litigation

The Educational Service Center is currently party to legal proceedings. Although the outcome of these lawsuits is not presently determinable, it is of the opinion of the Educational Service Center that resolution of these matters will not have a material adverse effect on the financial condition of the Educational Service Center.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2017

NOTE 12 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the Educational Service Center is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on the fund balance for the major governmental fund and all other governmental funds are presented below:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for			
Other Purposes	\$0	\$684	\$684
Alternative School Grant	0	111,406	111,406
Total Restricted	<u>0</u>	<u>112,090</u>	<u>112,090</u>
Committed to			
Retirement Severance Benefits	<u>50,000</u>	<u>0</u>	<u>50,000</u>
Assigned to			
Other Purposes	<u>148,599</u>	<u>0</u>	<u>148,599</u>
Unassigned			
	<u>1,166,437</u>	<u>0</u>	<u>1,166,437</u>
Total Fund Balances	<u>\$1,365,036</u>	<u>\$112,090</u>	<u>\$1,477,126</u>

NOTE 13 – INTERFUND ACTIVITY

During the year, the Educational Service Center's General Fund made an advance in the amount of \$2,273 to the Alternative School Grant Fund in anticipation of grant receipts. This advance is expected to be repaid during fiscal year 2018. The Alternative School Grant Fund returned an advance from the prior year to the General Fund in the amount of \$16,506.

NOTE 14 – SUBSEQUENT EVENTS

Lawrence County Academy

A settlement agreement was signed and the Lawrence County Academy closed as of June 30, 2017. Assets of any kind were transferred to the Educational Service Center. On November 11, 2017, the Lawrence County Academy transferred \$200,590.52 to the Educational Service Center.

NOTE 15 – COMPLIANCE

Although required by Ohio Administrative Code Section 117-2-03(B) to prepare its financial report in accordance with accounting principles generally accepted in the United States of America (GAAP), the Educational Service Center chooses to prepare its financial statements and notes in accordance with the cash basis of accounting. This is not in compliance with Ohio law.

Lawrence County Educational Service Center
*Schedule of Receipts, Disbursements and Changes in
Fund Balance - Budget (Budget Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2017*

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
Cash Receipts				
Intergovernmental	\$ 287,783	\$ 269,206	\$ 293,982	\$ 24,776
Interest	1,450	1,168	1,128	(40)
Rent	1,800	3,050	2,785	(265)
Gifts and Donations	4,100	-	-	-
Charges for Services	423,036	296,239	405,385	109,146
Contract Services	1,719,939	1,998,690	1,998,690	-
Miscellaneous	719,724	797,712	722	(796,990)
<i>Total Cash Receipts</i>	<u>3,157,832</u>	<u>3,366,065</u>	<u>2,702,692</u>	<u>(663,373)</u>
Cash Disbursements				
Current:				
Instruction:				
Regular	-	39,749	-	39,749
Special	822,974	695,153	695,134	19
Other	5,761	27,649	27,650	(1)
Support Services:				
Pupils	690,880	714,613	714,614	(1)
Instructional Staff	495,135	491,351	474,026	17,325
Board of Education	179,003	222,228	222,285	(57)
Administration	404,727	386,956	386,957	(1)
Fiscal	341,483	296,861	296,861	-
Operation and Maintenance of Plant	50,730	73,643	73,562	81
Central	394,990	697,890	181,348	516,542
<i>Total Cash Disbursements</i>	<u>3,385,683</u>	<u>3,646,093</u>	<u>3,072,437</u>	<u>573,656</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(227,851)</u>	<u>(280,028)</u>	<u>(369,745)</u>	<u>(89,717)</u>
Other Financing Sources (Uses)				
Transfers In	1,215,331	1,003,143	-	(1,003,143)
Advances In	-	18,966	16,506	(2,460)
Proceeds from Sale of Capital Assets	200	-	-	-
Refund of Prior Year Expenditures	767	929	929	-
Advances Out	(16,506)	(4,733)	(2,273)	2,460
Transfers Out	(1,215,330)	(1,053,143)	(50,000)	1,003,143
<i>Total Other Financing Sources (Uses)</i>	<u>(15,538)</u>	<u>(34,838)</u>	<u>(34,838)</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	<u>(243,389)</u>	<u>(314,866)</u>	<u>(404,583)</u>	<u>(89,717)</u>
<i>Fund Balance at Beginning of Year</i>	<u>1,489,102</u>	<u>1,489,102</u>	<u>1,489,102</u>	<u>-</u>
<i>Prior Year Encumbrances Appropriated</i>	<u>81,918</u>	<u>81,918</u>	<u>81,918</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,327,631</u>	<u>\$ 1,256,154</u>	<u>\$ 1,166,437</u>	<u>\$ (89,717)</u>

See accompanying notes to the supplementary information.

Lawrence County Educational Service Center

Notes to the Supplementary Information

For the Fiscal Year Ended June 30, 2017

NOTE 1 - BUDGETARY PROCESS

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

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

The Educational Service Center’s Board adopts an annual appropriation resolution, which is the Board’s authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the 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 level within all funds.

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the cash basis of accounting which is not in accordance with the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon the accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance – budget (budget basis) and actual – for the General Fund, is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. Budgetary revenues and expenditures of the Termination Benefits Fund are reclassified to the General Fund for cash basis reporting.

The following table summarizes the adjustments necessary to reconcile the cash basis financial statements and budgetary basis schedules for the General Fund.

<u>Net Changes in Fund Balances</u>	
	<u>General</u>
Cash Basis	\$ (205,984)
Perspective Difference:	
Activity of Funds Reclassified for Cash Reporting Purposes	(50,000)
Encumbrances	<u>(148,599)</u>
Budget Basis	<u><u>\$ (404,583)</u></u>

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2017**

<i>Finding Number</i>	2017-001
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Noncompliance and Internal Control Deficiency

Ohio Admin. Code § 117-2-02(A) requires public offices to maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets, document compliance with finance-related legal and contractual requirements and prepare financial statements.

Also, sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

The Treasurer is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis, and the Board and/or other administrator are responsible for reviewing the reconciliations and related support.

The Center lacked management controls to maintain an accounting system and accounting records sufficient to enable the Center to identify, assemble, analyze, classify, record and report its transactions, prepare financial statements and reconcile cash (bank) balances to accounting system records (book) in an accurate and timely manner as evidenced by the following conditions:

Conditions related to accurate and timely reconciliations of the Center's general bank account:

The Center utilized the South Central Ohio Computer Association (SCOCA) accounting system which provides all of the required journals and ledgers. The SCOCA accounting software also included a monthly reconciliation process to assist the Center's Treasurer in the monthly book to bank reconciliation. However, the monthly reconciliations were not accurate:

- The Center acted as the fiscal agent for the Lawrence County Schools Council of Governments (the COG). The COG had two separate bank accounts; however, the Center tracked the activity of the COG in two special cost centers (SCCs 9011 and 9012) within its General Fund in the SCOCA accounting system, and made payments for the COG from the special cost centers using checks issued from the Center's bank account. Each month, the Center's Treasurer calculated the total of all checks written for the COG and then wire transferred the total amount from the COG's bank account into the Center's bank account. On June 23, 2017, the Center initiated a \$12,500 wire transfer from the COG's bank account to the Center's bank account to cover check number 24793 dated April 25, 2017, that cleared the Center's bank account; however, the Center initiated another wire transfer from the COG's bank account for \$12,500 on June 29, 2017 to cover check number 24793 that was not recorded on the reconciliation at June 30, 2017. On June 27, 2017, the Center initiated a wire transfer from the COG's bank account for \$900 to cover COG check number 24028, dated June 14, 2016; however, on June 30, 2017, the Center inadvertently wire transferred the \$900 back to the COG. The COG also owed the Center \$720 from check number 24967, dated June 22, 2017. The net result of these errors was that the

Center owed \$10,880 to the COG. The Center repaid the COG \$10,880 through a wire transfer on December 10, 2018.

**FINDING NUMBER 2017-001
(Continued)**

Conditions related to accurate and timely reconciliations of the Center's payroll account:

- Reconciling items at June 30, 2017 included outstanding checks 6 months or older dating back to 2010 totaling \$5,466.
- Reconciling items at June 30, 2017 included outstanding electronic fund transfers dating back to December 2013 and February 2014 totaling \$10,477.
- Reconciling item amounts for electronic fund transfers were different than the amounts that were posted to the system.
- Bank service charges were deducted from the payroll bank account; however, no wire transfers were made from the Center's general bank account to cover the charges.
- While the payroll bank account should reconcile to \$0, the reconciled bank balance at June 30, 2017 was \$8,823.

Conditions related to accurate recording of transactions:

- A July 2016 receipt for repayment of returned deposit item in amount of \$100 was recorded in the accounting system; however, the receipt was already accounted for in June 2016.
- A July 2016 memo disbursement posted to Transfers in the amount of \$5,000 for a wire transfer from the Center's general bank account to the payroll bank account did not represent an actual disbursement and resulted in an overstatement of expenditures in the accounting system.
- November 2016 memo disbursements in the amount of \$57 (shown as negative expenditures to correct check number 6012) did not represent an actual negative disbursement and resulted in an understatement of expenditures in the accounting system.
- A January 2017 memo disbursement written to Transfers in the amount of \$12,326 for wire transfers from the Center's general bank account to the payroll bank account did not represent an actual disbursement and resulted in an overstatement of expenditures in the accounting system.
- June 2017 interest revenue in the amount of \$83 was not posted in the accounting system.
- The Center's payroll bank account owed the Center's general bank account a total of \$9,669 at June 30, 2017 due to wire transfer made from the general bank account to the payroll bank account during fiscal year 2017 in excess of what was owed to the payroll bank account for items such as SERS employee share pick-up, etc.

These errors related to the accurate posting of transactions resulted in a \$17,252 understatement of the Center's accounting system fund balances at June 30, 2017. The adjustments identified above were incorporated into the financial statements during the compilation. The Center has adjusted the SCOCA accounting system for these errors.

As a result of these conditions, the reconciliations and financial information provided to the Board of Education during the period under audit were not accurate. These conditions also increase the risk that errors, theft or fraud may occur and not be detected in a timely manner.

**FINDING NUMBER 2017-001
 (Continued)**

We recommend that the Center's Treasurer prepare the monthly book-to-bank reconciliation in a timely manner using only the Center's bank accounts, and separately reconcile the COG's bank accounts to their two special cost centers with the Center's SCOCA accounting system. We also recommend that the Center's Treasurer reconcile the payroll account on a monthly basis, and resolve the long outstanding items found in the payroll account. The Center's Treasurer should also immediately follow-up on any discrepancies noted in the reconciliation process.

Finally, the Center should ensure that all financial transactions are accurately posted in a timely manner. This will allow the Center to maintain accurate records which the Board of Education can rely on for budgeting and planning purposes.

Officials' Response:

The Center has made corrections and is working on the payroll reconciliation process.

<i>Finding Number</i>	2017-002
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Noncompliance

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

Also, the report shall be certified by the proper officer or board and filed with the Auditor of State within sixty days after the close of the fiscal year, except that public offices reporting pursuant to generally accepted accounting principles shall file their reports within one hundred fifty days after the close of the fiscal year. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension.

Ohio Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the Center to prepare its annual financial report in accordance with generally accepted accounting principles (GAAP).

We identified the following noncompliance:

- The Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while material, cannot be determined at this time;
- Because the Center filed 2017 financial statements prepared in accordance with the modified cash basis of accounting, their financial statements should have been filed within sixty days after the close of the fiscal year end; however, the Center did not file their modified cash basis financial statements until August 22, 2018 which was after the filing extension due date of August 29, 2017.

FINDING NUMBER 2017-002
(Continued)

Pursuant to Ohio Rev. Code § 117.38 the Center may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the Center's ability to evaluate and monitor the overall financial condition of the Center. To help provide the users with more meaningful financial statements, the Center should prepare its annual financial statements according to generally accepted accounting principles and complete and file their annual financial statements with the Auditor of State by the required date.

Officials' Response:

The Center will work to be timely.

<i>Finding Number</i>	2017-003
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Noncompliance

Ohio Rev. Code §149.43 states that an entity shall make all public records available to any member of the general public at all reasonable times during regular business hours for inspection. Upon request, a person responsible for public records shall make copies available at a cost, within a reasonable period. In order to facilitate broader access to public records, public offices shall maintain public records in such a manner that they can be made available for inspection. **Ohio Rev. Code § 149.43(E)(1)** provides that all state and local officials, or their designees, must attend at least three hours of training on Ohio's public records laws during each term of office. The training must be certified by the Ohio Attorney General. Proof that training has been completed must include documentation that either the Attorney General's Office or another entity certified by the Attorney General provided that training to the official or his/her designee. Attendees who successfully complete the training will receive a certificate to serve as proof of training.

None of the Center's Board members attended training on Ohio's public records laws during prior/current term, nor did they send a designee. This could lead to the Board and management not being aware of the records they are required to provide to the public.

We recommend the Center's Board members or a designee attend the public records training during each term of office.

Officials' Response:

The Center will correct this.

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2016-001	Noncompliance and Internal Control Deficiency – Inaccurate reconciliations, timeliness of the SCOCA accounting system monthly close-outs and inaccurate financial reporting	No	Partially Corrected – See Finding Number 2017-001
2016-002	Noncompliance and Internal Control Deficiency – Violations related to sponsor contract	Yes	
2016-003	Internal Control Deficiency – Lack of detailed information related to disbursements, and lack of segregation of duties	Yes	
2016-004	Noncompliance and Internal Control Deficiency – Timeliness of deposits of receipts and posting of receipts	Yes	
2016-005	Internal Control Deficiency – Sequential order of check numbers	Yes	
2016-006	Noncompliance and Internal Control Deficiency – Minute record did not always state purpose for holding executive sessions, no indication that official financial information was approved or what financial statements entailed, Board packets backdated.	Yes	
2016-007	Noncompliance – Annual financial report filed late	No	Not Corrected – See Finding Number 2017-002
2016-008	Noncompliance – Public records training	No	Not Corrected – See Finding Number 2017-003
2016-009	Noncompliance – Outside activities of staff	Yes	
2016-010	Internal Control Deficiency – Deficiencies in mutual services agreement	No	Finding No Longer Valid – agreement ended in fiscal year 2015.
2016-011	Internal Control Deficiency – Payroll bank account overdrafts	Yes	
2016-012	Finding for Recovery – Internal Revenue Service penalties and interest	No	Not Corrected

Lawrence County Educational Service Center
 Lawrence County
 Schedule of Prior Audit Findings
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Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2016-013	Finding for Recovery – overpayment of performance incentive	No	Not Corrected
2016-014	Finding for Recovery – Repaid Under Audit – overpayment of performance incentive	Yes	
2016-015	Noncompliance – Compensation for Treasurer’s vacation leave payout and performance incentives included in retirement compensation.	No	
2016-016	Noncompliance – Compensation for Superintendent’s performance incentives included in retirement compensation.	No	



Dave Yost • Auditor of State

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2018**