



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, 2014. 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 Findings 2014-001 through 2014-007 reported in the Schedule of Findings to be internal control deficiencies 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 2014-001, 2014-002, 2014-004 and 2014-008.

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 "D" and "Y".

Dave Yost
Auditor of State

Columbus, Ohio

February 26, 2018

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

The discussion and analysis of the Lawrence County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2014. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2014 are as follows:

- Net position of governmental activities increased \$52,465.
- General revenues accounted for \$55,044 in revenue or 1.8% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$2,990,230 or 98.2% of total revenues of \$3,045,274.
- The Educational Service Center had \$2,992,809 in expenses related to governmental activities. Most of these expenses were offset by program revenues.
- The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,760,162 and expenditures of \$3,015,349.

USING THIS ANNUAL FINANCIAL REPORT

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

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

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for educational services, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2014?" The statement of net position and the statement of activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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

- In the statement of net position and the statement of activities, all of the Educational Service Center's programs and services (except for fiduciary funds) are reported as governmental activities including instruction and support services.

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 7. Fund financial statements provide detailed information about the Educational Service Center's major fund. 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 an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs and services. The relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds is reconciled in the financial statements.

Fiduciary Funds. The Educational Service Center's fiduciary funds are agency funds. The Educational Service Center's fiduciary funds are reported in a separate Statement of Fiduciary Assets and Liabilities. We exclude these activities from the Educational Service Center's other financial statements because the Educational Service Center cannot use these assets to finance its operations. The Educational Service Center is responsible for ensuring that the assets reported in this fund are used for their intended purposes. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Fiduciary funds use the accrual basis of accounting.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

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 2014 as compared to 2013.

Table 1
Net Position

	Governmental Activities	
	2014	2013
Assets		
Current and Other Assets	\$ 1,469,424	\$ 1,380,009
Capital Assets, Net	40,370	42,053
Total Assets	<u>1,509,794</u>	<u>1,422,062</u>
Liabilities		
Long-Term Liabilities	121,830	146,053
Current and Other Liabilities	177,147	117,657
Total Liabilities	<u>298,977</u>	<u>263,710</u>
Net Position		
Net Investment in Capital Assets	40,370	42,053
Restricted	14,635	26,232
Unrestricted	1,155,812	1,090,067
Total Net Position	<u>\$ 1,210,817</u>	<u>\$ 1,158,352</u>

Over time, net position can serve as a useful indicator of a government's financial position. At June 30, 2014, the Educational Service Center's assets exceeded liabilities by \$1,210,817. Current and other assets increased due to increases to cash on hand at year and intergovernmental receivables. Capital assets, net decreased primarily due to current year depreciation exceeding current year additions. Long-term liabilities decreased due to lower compensated absences balances at fiscal year end. Current and other liabilities increased due to increases in accrued wages and benefits and intergovernmental payables.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2014 as compared to 2013.

Table 2
Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues		
Program Revenues		
Charges for Services	\$ 2,586,450	\$ 2,380,151
Operating Grants and Contributions	403,780	222,618
Total Program Revenues	<u>2,990,230</u>	<u>2,602,769</u>
General Revenues		
Grants and Entitlements, Not Restricted	47,959	256,011
Gifts and Donations, Not Restricted	-	663
Investment Earnings	1,971	2,974
Miscellaneous	5,114	25,891
Total General Revenues	<u>55,044</u>	<u>285,539</u>
Total Revenues	<u>3,045,274</u>	<u>2,888,308</u>
Program Expenses		
Instruction:		
Regular	139,532	142,788
Special	658,614	380,423
Student Intervention Services	8,674	-
Support Services:		
Pupils	390,473	400,759
Instructional Staff	503,288	589,742
Board of Education	46,153	50,660
Administration	377,689	225,905
Fiscal	306,742	202,754
Operation and Maintenance of Plant	55,643	44,708
Central	506,001	545,552
Total Expenses	<u>2,992,809</u>	<u>2,583,291</u>
Increase in Net Position	52,465	305,017
Net Position, Beginning of Year	1,158,352	853,335
Net Position, End of Year	<u>\$ 1,210,817</u>	<u>\$ 1,158,352</u>

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 99.7% of total governmental revenue. Revenue from charges for services and operating grants and contributions increased during fiscal year 2014. Charges for services increased due to additional services provided to the local districts. General revenue grants and entitlements decreased while operating grants and contributions increased due to additional restricted foundation payments.

Total expenses increased from 2013 to 2014. The largest expenses of the Educational Service Center are for support services, which totaled \$2,185,989 or 73% of total governmental expenses for fiscal year 2014. Central decreased as a result of monies paid out for special education cooperatives during 2013. Fluctuations for expenses are directly related to the needs of the Educational Service Center's member School Districts. Special Instruction increased due to services provided for the Lawrence County Academy.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

Total governmental expenses of \$2,992,809 were offset by program revenues of \$2,990,230 and general revenues of \$55,044.

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
	2014	2014	2013	2013
Program Expenses				
Instruction:				
Regular	\$ 139,532	\$ 5,860	\$ 142,788	\$ 4,263
Special	658,614	(244,868)	380,423	(43,730)
Student Intervention Services	8,674	(928)	-	-
Support Services:				
Pupils	390,473	(18,397)	400,759	5,654
Instructional Staff	503,288	(10,028)	589,742	8,360
Board of Education	46,153	(6,660)	50,660	(755)
Administration	377,689	80,071	225,905	2,303
Fiscal	306,742	5,307	202,754	(4,604)
Operation and Maintenance of Plant	55,643	(3,140)	44,708	94
Central	506,001	195,362	545,552	8,937
Totals	<u>\$ 2,992,809</u>	<u>\$ 2,579</u>	<u>\$ 2,583,291</u>	<u>\$ (19,478)</u>

THE EDUCATIONAL SERVICE CENTER'S FUNDS

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

The General Fund had \$2,545,508 in revenues and \$2,790,549 in expenditures. Charges for services and contract services increased due to an increase in services provided to the Educational Service Center's local districts and the Lawrence County Academy. The net change in fund balance for the General Fund was a decrease of \$245,041.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2014
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2014, the Educational Service Center had \$40,370 invested in its furniture, fixtures, and equipment. For additional information on capital assets, see Note 5 to the basic financial statements. Table 4 shows fiscal year 2014 balances compared to 2013.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2014	2013
Furniture, Fixtures and Equipment	<u>\$40,370</u>	<u>\$42,053</u>
Totals	<u><u>\$40,370</u></u>	<u><u>\$42,053</u></u>

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

DEBT

The Educational Service Center did not have any debt outstanding as of June 30, 2014. For information regarding other long term obligations, please see Note 9 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact 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

As of June 30, 2014

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,077,708
Accounts Receivable	11,751
Intergovernmental Receivable	379,965
Depreciable Capital Assets, Net	<u>40,370</u>
<i>Total Assets</i>	<u>1,509,794</u>
Liabilities	
Accounts Payable	25,714
Accrued Wages and Benefits Payable	98,664
Intergovernmental Payable	52,769
Long-Term Liabilities:	
Due within One Year	47,325
Due in More than One Year	<u>74,505</u>
<i>Total Liabilities</i>	<u>298,977</u>
Net Position	
Net Investment in Capital Assets	40,370
Restricted for:	
Other Purposes	14,635
Unrestricted	<u>1,155,812</u>
<i>Total Net Position</i>	<u>\$ 1,210,817</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Activities
For the Fiscal Year Ended June 30, 2014

	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 139,532	\$ 71,926	\$ 61,746	\$ (5,860)
Special	658,614	606,530	296,952	244,868
Student Intervention Services	8,674	9,602	-	928
Support Services:				
Pupils	390,473	385,688	23,182	18,397
Instructional Staff	503,288	512,248	1,068	10,028
Board of Education	46,153	52,813	-	6,660
Administration	377,689	297,511	107	(80,071)
Fiscal	306,742	299,939	1,496	(5,307)
Operation and Maintenance of Plant Central	55,643 506,001	54,617 295,576	4,166 15,063	3,140 (195,362)
<i>Totals</i>	<u>\$ 2,992,809</u>	<u>\$ 2,586,450</u>	<u>\$ 403,780</u>	(2,579)
General Revenues				
				47,959
Grants and Entitlements not Restricted to Specific Programs				1,971
Investment Earnings				5,114
Miscellaneous				<u>5,114</u>
<i>Total General Revenues</i>				<u>55,044</u>
<i>Change in Net Position</i>				52,465
<i>Net Position at Beginning of Year</i>				<u>1,158,352</u>
<i>Net Position at End of Year</i>				<u>\$ 1,210,817</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center

Balance Sheet

Governmental Funds

As of June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,047,702	\$ 30,006	\$ 1,077,708
Receivables:			
Accounts	11,751	-	11,751
Intergovernmental	379,965	-	379,965
<i>Total Assets</i>	<u>\$ 1,439,418</u>	<u>\$ 30,006</u>	<u>\$ 1,469,424</u>
Liabilities and Fund Balances			
Liabilities			
Accounts Payable	\$ 16,522	\$ 9,192	\$ 25,714
Accrued Wages and Benefits Payable	94,924	3,740	98,664
Intergovernmental Payable	50,330	2,439	52,769
<i>Total Liabilities</i>	161,776	15,371	177,147
Deferred Inflows of Resources			
Unavailable Revenue	285,112	-	285,112
Fund Balances			
Restricted	-	14,635	14,635
Unassigned	992,530	-	992,530
<i>Total Fund Balances</i>	992,530	14,635	1,007,165
<i>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</i>	<u>\$ 1,439,418</u>	<u>\$ 30,006</u>	<u>\$ 1,469,424</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
*Reconciliation of Total Governmental Fund Balances
to Net Position of Governmental Activities
As of June 30, 2014*

Total Governmental Fund Balances	\$	1,007,165
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		40,370
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds:		
Charges for Services	262,972	
Grants	22,140	
Total		285,112
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Compensated Absences Payable		(121,830)
Net Position of Governmental Activities	\$	<u>1,210,817</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues			
Intergovernmental	\$ 322,773	\$ 106,828	\$ 429,601
Interest	1,971	-	1,971
Charges for Services	831,494	107,826	939,320
Contract Services	1,383,016	-	1,383,016
Rent	1,140	-	1,140
Miscellaneous	5,114	-	5,114
<i>Total Revenues</i>	<u>2,545,508</u>	<u>214,654</u>	<u>2,760,162</u>
Expenditures			
Current:			
Instruction:			
Regular	8,693	130,049	138,742
Special	657,166	-	657,166
Student Intervention Services	8,674	-	8,674
Support Services:			
Pupils	350,672	48,684	399,356
Instructional Staff	509,747	2,198	511,945
Board of Education	48,993	-	48,993
Administration	374,798	265	375,063
Fiscal	311,194	3,108	314,302
Operation and Maintenance of Plant	46,770	8,873	55,643
Central	473,842	31,623	505,465
<i>Total Expenditures</i>	<u>2,790,549</u>	<u>224,800</u>	<u>3,015,349</u>
<i>Net Change in Fund Balances</i>	(245,041)	(10,146)	(255,187)
<i>Fund Balances at Beginning of Year</i>	<u>1,237,571</u>	<u>24,781</u>	<u>1,262,352</u>
<i>Fund Balances at End of Year</i>	<u><u>\$ 992,530</u></u>	<u><u>\$ 14,635</u></u>	<u><u>\$ 1,007,165</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2014*

Net Change in Fund Balances - Total Governmental Funds \$ (255,187)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which depreciation exceeded capital asset additions in the current period:

Capital Asset Additions	12,481	
Depreciation Expense	(14,164)	
Total		(1,683)

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

Charges for Services	262,974	
Grants	22,138	
Total		285,112

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Decrease in Compensated Absences		24,223

Change in Net Position of Governmental Activities \$ 52,465

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Agency Funds
June 30, 2014

	Lawrence County School Council of Governments	Component Unit - Lawrence County Academy
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 4,544,075	\$ 440,795
<i>Total Assets</i>	<u>\$ 4,544,075</u>	<u>\$ 440,795</u>
LIABILITIES:		
Undistributed Monies	\$ 4,544,075	\$ 440,795
<i>Total Liabilities</i>	<u>\$ 4,544,075</u>	<u>\$ 440,795</u>

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, 2014

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 26 support staff employees and 29 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 Lawrence County Educational Service Center is the fiscal agent of the Lawrence County Academy (the "Academy"), which began operations July 1, 2013, and has fiduciary responsibility for the Academy. Therefore, for financial reporting purposes, it is presented in the Educational Service Center's fiduciary financial statements as a component with a separate agency fund.

Separate financial statements of the Lawrence County Academy may be obtained by contacting Brenda Hill, Treasurer by calling (740) 532-4223 ext. 227 or writing to the Lawrence County Academy, 304 N. 2nd Street, Ironton, Ohio 45638.

The Educational Service Center participates in two organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association Council of Governments and the Collins Career Center. Information about these organizations is presented in Note 10 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 and the Lawrence County Academy. Accordingly, this organization is presented as an agency fund within the Educational Service 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 11 to the basic financial statements.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

B. Fund Accounting

The Educational Service Center uses funds to maintain its financial records during the fiscal year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Educational Service Center's funds are 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. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Educational Service Center has the following major governmental fund:

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting (continued)

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 Educational Service Center under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Educational Service 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 also has an agency fund to account for activity of the component unit, the Lawrence County Academy.

C. Measurement Focus

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

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

D. Basis of Accounting

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

Revenues-Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

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

Deferred Outflows and Deferred Inflows of Resources Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditures/expenses) until then. The Educational Service Center did not have any deferred outflows of resources as of June 30, 2014. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenues) until that time. For the Educational Service Center this amount consists of grants and charges for services which are not collected in the available period. The difference between the Statement of Net Position and the Balance Sheet is due to these grants and charges not received during the available period. These were reported as revenues on the Statement of Activities and not recorded as deferred inflows on the Statement of Net Position.

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

E. Cash and Cash Equivalents

To improve cash management, cash received by the Educational Service Center is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the Educational Service Center'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, 2014, the Educational Service Center had no investments.

F. Capital Assets and Depreciation

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Capital Assets and Depreciation (continued)

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure.

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

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

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

G. Interfund Balances

Receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net position.

H. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the Educational Service Center has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the Educational Service Center's termination policy. The Educational Service Center records a liability for accumulated unused sick leave for employees after 10 years of current service with the Educational Service Center.

I. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences that will be paid from governmental funds upon the occurrence of employee resignations and retirements are reported as a liability in the fund financial statements. Bonds, long-term loans, and capital leases are recognized as a liability on the fund financial statement when due.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the statement of activities.

K. 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.

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.

L. Estimates

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Position

Net position represents the difference between assets, liabilities and deferred inflows/outflows of resources. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings and the effect of deferred outflows and inflows related to the acquisition, construction or improvement of those assets.

Net position is reported as restricted when there are limitations imposed on their use either through constitutional provisions, or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Other purposes restricted net position includes various grants and other resources restricted for various purposes. The Educational Service Center's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Of the Educational Service Center's \$14,635 restricted net position, none is restricted by enabling legislation.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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.

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

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

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

As of June 30, 2014, the Educational Service Center's bank balance of \$1,177,417 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 4 - STATE FUNDING

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

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

If additional funding is needed for the Educational Service Center, and if a majority of the Boards of Education of the school districts served by the Educational Service Center approve, the cost of Part (B) of the budget can be increased.

The portion that is in excess of the original funding calculation is shared by all of the school districts served by the Educational Service Center through additional reductions in their resources provided through the State Foundation Program. The State Board of Education initiates and supervises the procedure under which the school districts approve or disapprove the additional apportionment.

NOTE 5 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2014 follows:

	Balance at 6/30/2013	Additions	Deletions	Balance at 6/30/2014
Capital Assets:				
Depreciable Capital Assets:				
Furniture, Fixtures, and Equipment	143,107	12,481	-	155,588
Total Depreciable Capital Assets	143,107	12,481	-	155,588
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(101,054)	(14,164)	-	(115,218)
Total Accumulated Depreciation	(101,054)	(14,164)	-	(115,218)
Total Capital Assets being Depreciated, Net	42,053	(1,683)	-	40,370
Capital Assets, Net	\$ 42,053	\$ (1,683)	\$ -	\$ 40,370

Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$ 790
Special Instruction	4,948
Support Services:	
Pupils	951
Instructional Staff	4,388
Board of Education	160
Administration	155
Fiscal	2,236
Central	536
Total Depreciation Expense	<u>\$ 14,164</u>

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 6 - RISK MANAGEMENT

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

The Educational Service Center joined together with other school districts and educational service centers in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district or educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 11).

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

General Liability:	
Each Occurrence	\$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 2014, the Educational Service Center participated in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool (Note 11). 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 11), 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, 2014

NOTE 7 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement, disability, and survivor benefits; annual cost-of-living adjustments; and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report can be obtained on SERS' website, at www.ohsers.org, under *Employers/Audit Resources*.

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2014, the allocation to pension and death benefits is 13.10 percent. The remaining 0.90 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Fund. The Educational Service Center's contributions to SERS for the fiscal years ended June 30, 2014, 2013, and 2012 were \$30,102, \$57,122, and \$34,478; 93% has been contributed for fiscal year 2014 and 100% for the fiscal years 2013 and 2012. \$2,172 represents the unpaid contribution for fiscal year 2014 and is recorded as a liability within the respective funds.

State Teachers Retirement System

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

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

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 9.5 percent of earned compensation among various investment choices. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated to investment choices by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the DB Plan during their fifth year of membership. Eligible members who do not make a choice during the reselection period will permanently remain in their current plan.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

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

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 9.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – For members who select the Combined Plan, 10% of the 11% member contribution rate is deposited into the member’s defined contribution account and the remaining amount is applied to the DB Plan. Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of service credit. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

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

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

A DB or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the DB Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 14% for members and 14% for employers.

For the fiscal year ended June 30, 2014, plan members were required to contribute 11 percent of their annual covered salaries. For the fiscal years 2013 and 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2014, 2013, and 2012 were \$139,407, \$145,385, and \$140,283, respectively; 81% has been contributed for the fiscal year 2014 and 100% for the fiscal years 2013 and 2012. \$26,922 represents the unpaid contribution for fiscal year 2014 and is recorded as a liability with the respective funds.

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

Effective July 1, 2014, plan members will be required to contribute 12% of their annual covered salaries.

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2014, no members of the Board of Education had elected Social Security.

B. Postemployment Benefits

State Teachers Retirement System

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

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

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2014, 2013, and 2012. For the Educational Service Center, these amounts equaled \$10,419, \$10,902, and \$10,219 for fiscal years 2014, 2013, and 2012, respectively, which were equal to the required allocation for each year.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

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

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 two postemployment benefit plans.

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2014 was \$104.90 for most participants, but could be as high as \$335.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50, if they participated in one of SERS' health care plans.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2014, 2013, and 2012, the actuarially required allocations were 0.76 percent, 0.74 percent and 0.75 percent, respectively. For the Educational Service Center, contributions for the fiscal years ended June 30, 2014, 2013, and 2012 were \$1,817, \$3,143, and \$2,694, respectively, which were equal to the required allocation for each year.

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. At June 30, 2014, 2013, and 2012, the health care allocations were 0.14 percent, 0.16 percent, and 0.55 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2014, the minimum compensation level was established at \$20,250. For the Educational Service Center, the amounts assigned to health care, including the surcharge, during the 2014, 2013, and 2012 fiscal years equaled \$7,603, \$5,964, and \$5,893, respectively, which equaled the required allocation for each year.

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

The financial reports of SERS' Health Care and Medicare B plans are included in its *Comprehensive Annual Financial Report*. The report can be obtained on SERS website at www.ohsers.org under *Employers/Audit Resources*.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

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 \$1,605.17, for family coverage and seventy-five percent of monthly premiums, or \$649.86 for individual coverage for Plan 1. The Educational Service Center pays seventy-five percent of monthly premiums, or \$1,315.51, for family coverage and seventy-five percent of monthly premiums, or \$532.60 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.

NOTE 9 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2014 were as follows:

	Outstanding			Outstanding	Due in
	06/30/13	Additions	Deductions	06/30/14	One Year
Compensated Absences	\$146,053	\$120,789	\$145,012	\$121,830	\$47,325

Compensated absences will be paid from the fund from which the employees' salaries are paid, with the General Fund being the most significant fund.

NOTE 10 - 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 Council of Governments (SCOCARCoG) which is an information technology center. SCOCARCoG is a council of governments providing information technology services to 59 public education entities, 60 non-public education entities, and public libraries from 24 Ohio 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 of the eleven participating counties, two school treasurers, and a representative for the fiscal agent. SCOCARCoG is not accumulating significant financial resources nor is it experiencing fiscal stress that may cause an additional financial benefit to or burden on members in the future. The Educational Service Center paid \$43,720 for services provided during fiscal year 2014. Financial information for SCOCARCoG can be obtained from their fiscal office located at Pike County Career Technology Center, P.O. Box 596, 175 Beaver Creek, Piketon, Ohio 45661.

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.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS (continued)

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 2014.

NOTE 11 - INSURANCE PURCHASING POOLS

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

The Educational Service Center participates in the 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 Educational Service 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 12 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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, 2014, if applicable, cannot be determined at this time.

B. Litigation

The Educational Service Center is currently party to legal proceedings.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2014*

NOTE 13 - RECEIVABLES

Receivables at June 30, 2014 consisted of accounts receivable and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs. A summary of the principal items of intergovernmental receivables follows:

Major Fund:	
General Fund	<u>\$ 379,965</u>

NOTE 14 – 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:

Fund Balances	General Fund	Other Governmental Funds	Total Governmental Funds
Restricted for			
Other Purposes	\$0	\$14,635	\$14,635
Total Restricted	<u>0</u>	<u>14,635</u>	<u>14,635</u>
Unassigned	992,530	0	992,530
Total Fund Balances	<u>\$992,530</u>	<u>\$14,635</u>	<u>\$1,007,165</u>

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES

For 2014, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 66, “Technical Corrections – 2012 – An Amendment of GASB Statements No. 10 and No. 62,” GASB Statement No. 69, “Government Combinations and Disposals of Government Operations,” and GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees.”

Statement No. 66 resolves conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement 54 and Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*.

This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2014

NOTE 15 – CHANGES IN ACCOUNTING PRINCIPLES (continued)

Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combinations* includes a variety of transactions referred to as mergers, and transfers of operations.

Statement No. 70 improves accounting and financial reporting by state and local governments that extend and receive non exchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

The implementation of GASB Statements No. 66, 69, and 70 had no effect on the financial statements.

NOTE 16 – SUBSEQUENT EVENT

Effective December 1, 2015, the Educational Service Center is no longer the fiscal agent for the Lawrence County Academy.

Lawrence County Educational Service Center
*Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget (Budget Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2014*

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
Revenues				
Intergovernmental	\$ 483,071	\$ 570,219	\$ 327,574	\$ (242,645)
Interest	2,974	1,797	1,971	174
Rent	1,260	1,140	1,140	-
Charges for Services	1,404,334	1,137,862	772,514	(365,348)
Contract Services	-	1,383,016	1,383,016	-
Miscellaneous	282,597	3,338	18,267	14,929
<i>Total Revenues</i>	<u>2,174,236</u>	<u>3,097,372</u>	<u>2,504,482</u>	<u>(592,890)</u>
Expenditures				
Current:				
Instruction:				
Regular	12,821	12,810	12,810	-
Special	396,323	601,922	613,328	(11,406)
Student Intervention Services		8,674	8,674	-
Support Services:				
Pupils	345,951	353,919	353,918	1
Instructional Staff	524,575	601,735	522,305	79,430
Board of Education	51,485	48,031	48,031	-
Administration	301,922	280,351	366,065	(85,714)
Fiscal	214,659	296,724	303,532	(6,808)
Operation and Maintenance of Plant	34,776	47,009	47,009	-
Central	257,264	546,031	474,386	71,645
<i>Total Expenditures</i>	<u>2,139,776</u>	<u>2,797,206</u>	<u>2,750,058</u>	<u>47,148</u>
<i>Excess of Revenues Over Expenditures</i>	<u>34,460</u>	<u>300,166</u>	<u>(245,576)</u>	<u>(545,742)</u>
Other Financing Sources				
Refund of Prior Year Expenditures	280	21,077	21,077	-
<i>Total Other Financing Sources</i>	<u>280</u>	<u>21,077</u>	<u>21,077</u>	<u>-</u>
<i>Net Change in Fund Balance</i>	34,740	321,243	(224,499)	(545,742)
<i>Fund Balance at Beginning of Year</i>	1,217,185	1,217,185	1,217,185	-
<i>Prior Year Encumbrances Appropriated</i>	<u>52,460</u>	<u>52,460</u>	<u>52,460</u>	<u>-</u>
<i>Fund Balance at End of Year</i>	<u>\$ 1,304,385</u>	<u>\$ 1,590,888</u>	<u>\$ 1,045,146</u>	<u>\$ (545,742)</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, 2014

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 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.

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a restriction, assignment, or commitment of fund balance (GAAP basis).
4. Funds treated as General Fund equivalents on the GAAP basis are not included on the budget basis.

Lawrence County Educational Service Center

Notes to the Supplementary Information

For the Fiscal Year Ended June 30, 2014

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

	<u>General</u>
GAAP Basis	\$ (245,041)
Adjustments:	
Revenue Accruals	(19,949)
Expenditure Accruals	43,047
Encumbrances	<u>(2,556)</u>
Budget Basis	<u><u>\$ (224,499)</u></u>

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**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2014**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

FINDING NUMBER 2014-001

Noncompliance and Internal Control

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. Per Ohio Admin. Code § 117-2-02(D), accounting records that can help achieve these objectives include:

- Cash journal, which typically includes the amount, date, receipt number, check number, account code, purchase order number, and any other information necessary to properly classify the transaction.
- Receipts ledger, which typically assembles and classifies receipts into separate accounts for each type of receipt of each fund the public office uses. The amount, date, name of payor, purpose, receipt number, and other information required for such transactions to be recorded on this ledger.
- Appropriation ledger, which assembles and classifies disbursements into separate accounts, for at a minimum, each account listed in the appropriation resolution. The amount, fund, date, check number, purchase order number, encumbrance amount, unencumbered balance, amount of disbursement, and any other information required may be entered in the appropriate columns.

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 and prepare financial statements as evidenced by the following conditions:

Inaccurate Reconciliations

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 includes a monthly reconciliation process to assist the Center's Treasurer in the monthly book to bank reconciliation. However, the monthly reconciliations included in the accounting records 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 issue 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. At June 30, 2014, there was \$1,036 in wire transfers outstanding from the COG's bank account to the Center's bank account to cover checks that cleared the Center's bank account; however, these wire transfers were not recorded on the reconciliation. The Center reported the COG's activity in an Agency Fund on the Center's financial statements.

FINDING NUMBER 2014-001
(Continued)

- Beginning in 2014, the Center also acted as the fiscal agent for the Lawrence County Academy (the Academy). The Academy contracted with the Center for all purchased services. The Center maintained two special cost centers (SCCs 9913 and 9914) within its General Fund to account for the expenditures for which they billed the Academy and monies received from the Academy for those purchased services. The Center's consultant removed the Academy's activity from the Center's financial statements. The reconciliations performed by the Center each month in fiscal year 2014 and at June 30, 2014 included the bank account for the Academy (balance at June 30, 2014 of \$506,627), the Center's two bank accounts, and the two bank accounts of the COG. However, the Center did not perform a separate reconciliation of the COG's bank accounts to the Center's two General Fund special cost centers for the COG. Furthermore, the Academy's bank account should not have been included in the Center's reconciliation because the Center's two special cost centers within its General Fund were to track what the Center spent on behalf of, and then billed to, the Academy.

These conditions allowed the following errors to remain undetected:

- October 2013 check printing fee of \$49 was not recorded in the accounting system.
- April 2014 returned deposited item of \$2,588 was already posted as a receipt in the accounting system but was not corrected when deposit was returned.
- Throughout 2014, memo checks for hospital insurance were overstated in the accounting system by a total of \$6,471.
- February 2014 administrative fee of \$1,850 was wire transferred from the COG's bank account to the Center's bank account; however, the receipt was not posted to the accounting system.
- Unknown disbursement variance of \$107 to reconcile balances.
- During fiscal year 2014, \$745,470 in Academy receipts for state foundations and casino monies were posted to Center's accounting system in the General Fund SCC 9913. The only receipts that should have been posted to the Center's General Fund SCCs 9913 or 9914 were for Charges for Services' receipts that were paid to the Center by the Academy to cover the cost of the Center's services that that Academy purchased. The Center's consultant correctly removed the \$745,470 in Academy receipts from the Center's General Fund for financial reporting purposes; however the financial information from the accounting system provided to the Board during the year was incorrect.
- In February 2014, the Center wire transferred \$222,593 from the Academy's bank account to the Center's bank account for services provided by the Center; however, the Center did not post the receipt to the Center's General Fund SCC 9913, which was designated to account for expenses incurred on behalf of the Academy and receipts from the Academy for services provided by the Center.
- The March 2014 SERS employee share pick-up and employer share totaling \$5,815 was electronically paid from the Center's bank account but not posted in the accounting system.
- The March 2014 Medicare payment was electronically transferred for \$64 more than was posted to the accounting system.

**FINDING NUMBER 2014-001
(Continued)**

- The March and April 2014 STRS employee share pick-up and employer share totaling \$15,762 was electronically paid from the Center's bank account but not posted to the accounting system.
- Memo check number 22403, written on May 5, 2014, in the amount of \$2,243 was written to cover IRS penalties that were subsequently reimbursed; however the Center did not record the reimbursement which resulted in overstated disbursements.
- A May 2014 \$50 reimbursement from the COG was not posted in the Center's accounting records.
- Interest earned by the Center in the amount of \$174 was posted to the COG's General Fund special cost center. This was subsequently corrected in the accounting system in fiscal year 2015, but was not corrected on the 2014 statements presented for audit.
- A March 2014 receipt in the amount of \$5,466 was posted as a refund of prior year expenditures; however, there was no corresponding deposit to support this receipt.
- June 2014 receipts totaling \$8,845 were duplicate postings which overstated General Fund Charges for Services. This was corrected in the accounting system in fiscal year 2015, but was not corrected on the 2014 statements presented for audit.
- At June 30, 2014, the Center's general bank account owed the Center's payroll bank account a total of \$24,378 because there was no transfer from the general account for payments made from the payroll account for items such as SERS and STRS employee share pick-up, differences with hospitalization insurances, etc.

The errors identified above resulted in a \$534,535 overstatement of the Center's accounting system fund balances at June 30, 2014. The Center has adjusted the SCOCA accounting system.

We also noted that the monthly and fiscal year end close-outs of the SCOCA accounting system were not performed timely as follows:

- July 2013 SCOCA accounting system was not closed out until August 26, 2013;
- August 2013 SCOCA accounting system was not closed out until October 24, 2013;
- September 2013 SCOCA accounting system was not closed out until December 3, 2013;
- October 2013 SCOCA accounting system was not closed out until January 27, 2014;
- November 2013 SCOCA accounting system was not closed out until January 29, 2014;
- December 2013 SCOCA accounting system was not closed out until February 6, 2014;
- January 2014 SCOCA accounting system was not closed out until February 28, 2014;
- February 2014 SCOCA accounting system was not closed out until June 10, 2014;
- March 2014 SCOCA accounting system was not closed out until July 10, 2014;
- April 2014 SCOCA accounting system was not closed out until July 14, 2014;

**FINDING NUMBER 2014-001
(Continued)**

- May and June 2014 and Fiscal Year 2014 SCOCA accounting system were not closed out until August 26, 2014.

During the periods between the month end and the date of the accounting system close out, the Center's Treasurer issued 'on demand' checks that were manually entered into the accounting system after the month to which the manual check related was closed out on the accounting system. As a result, the financial information provided to the Board of Education was out of date by as many as three months.

Inaccurate Financial Reporting

The financial statements had the following errors that required audit adjustment or reclassification:

- General Fund expenses were understated by \$13,083.
- General Fund Miscellaneous receipts were overstated by \$6,154.
- General Fund Charges for Services receipts were overstated by \$8,845.
- General Fund Interest was understated by \$174.
- The General Fund expenditures were understated by a total of \$560,882 in the following functions: \$265,549 in Special Instruction; \$1,379 in Pupils; \$6,283 in Instructional Staff; \$85,705 in Administrative; \$11,479 in Fiscal Services; and \$190,487 in Central. General Fund Special Instruction expenditures were also understated by \$11,405 due to an incorrect journal entry.
- General Fund Charges for Services receipts and Central expenses were both overstated by \$71,644.
- General Fund Intergovernmental Receivables were overstated by \$80,308; Deferred Inflows - Unavailable Revenue was understated by \$285,112; Charges for Services revenue was overstated by \$343,278 and Intergovernmental Revenue was overstated by \$22,142.
- The Center did not establish an agency fund to report resources held for the Lawrence County Academy at June 30, 2014; Equity in Pooled Cash and Cash Equivalent and Undistributed Monies totaling \$440,795.

The Center has adjusted the SCOCA accounting system and corrected the financial statements.

We recommend 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 the Center's Treasurer immediately follow-up on any discrepancies noted in the reconciliation process. This will allow the Center to maintain accurate records which the Board of Education can rely on for budgeting and planning purposes. Furthermore, we recommend the Center's Treasurer close out the fiscal year in a timely manner. Finally, to ensure the Center's financial statements and notes to the financial statements are complete and accurate, the Board of Education should adopt policies and procedures, including a final review of the statements and footnotes by the Center's Treasurer and the Board of Education to identify and correct errors or omissions.

**FINDING NUMBER 2014-001
(Continued)**

Officials' Response:

Many of these recommendations have already been implemented. The Center now has its own SCOCA accounting system for the COG. The Center's current Treasurer prepares a monthly book-to-bank reconciliation in a timely manner (within the first 10-15 days of the following month). The Governing Board's policies and procedures will be reviewed to make any necessary changes per these recommendations.

FINDING NUMBER 2014-002

Noncompliance and Internal Control

Ohio Rev. Code §3314.03 (D) states that the contract shall specify the duties of the sponsor which shall be in accordance with the written agreement entered into with the department of education under division (B) of section 3314.05 of the Ohio Revised Code and shall include the following:

- (1) Monitor the community school's compliance with all laws applicable to the school and with the terms of the contract;
- (2) Monitor and evaluate the academic and fiscal performance and the organization and operation of the community school on at least an annual basis;
- (3) Report on an annual basis the results of the evaluation conducted under division (D)(2) of this section to the Department of Education and to the parents of students enrolled in the community school;
- (4) Provide technical assistance to the community school in complying with laws applicable to the school and terms of the contract;
- (5) Take steps to intervene in the school's operation to correct problems in the school's overall performance, declare the school to be on probationary status pursuant to Section 3314.073 of the Ohio Revised Code, suspend the operation of the school pursuant to Section 3314.072 of the Ohio Revised Code, or terminate the contract of the school pursuant to Section 3314.07 of the Ohio Revised Code as determined necessary by the sponsor; and
- (6) Have in place a plan of action to be undertaken in the event the community school experiences financial difficulties or closes prior to the end of a school year.

The Center entered into a contract with the Lawrence County Academy (the Academy) on May 10, 2013 wherein the Center agreed to be the sponsor for the Academy, a conversion community school. The responsibilities of the Center as listed in Article V of the contract include, but are not limited to, the following:

- Monitor the Academy's compliance with all applicable laws to the Academy and with the terms of the contract;
- Monitor and evaluate the academic and fiscal performance and the organization and operation of the Academy on at least an annual basis;
- Provide technical assistance to the Academy in compliance with the laws applicable to the Academy and the terms of the contract.

FINDING NUMBER 2014-002
(Continued)

Exhibit 3 of the contract (Management and administration plan for the Academy) states that the Academy Board of Directors utilizes the services of the Center as the qualified fiscal officer. The Center's Treasurer was appointed to be the fiscal agent/Treasurer of the Academy on August 9, 2013.

Ohio Attorney General Opinion 2010-020 States in part that a person may serve simultaneously in the positions of treasurer of a school district and treasurer or fiscal officer of a conversion community school sponsored by the school district when the position of treasurer or fiscal officer of the community school is a separate and distinct employment position with the community school. In his capacity as treasurer of the school district he may *not participate, either directly or indirectly, in (1) reviewing or evaluating the finances or financial records of the community school as part of the district board of education's oversight of the community school or (2) overseeing the provision of technical services to the community school.*

We identified the following noncompliance and internal control issues related to the contract:

- Contrary to Ohio Attorney General Opinion 2010-020, Article V (C) of the contract states that a representative of the Center shall meet with the Board of Directors *or Treasurer of the Academy* and shall review the financial and enrollment records of the Academy at least once every month. However, there was no evidence that anyone from the Center not directly involved with the Academy actually participated in the review or evaluation of the finances or financial records of the Academy.
- The Center's Treasurer, acting as fiscal agent for the Academy, prepared requisitions, purchase orders and invoices for services that the Academy purchased from the Center. The Center's Treasurer established two special cost centers within the Center's General Fund (SCCs 9913 and 9914) to track its expenditures and determine amounts to bill the Academy for the services provided by the Center. However, the Center's Treasurer also posted the Academy's state foundation monies, casino monies and interest earned on the Academy's bank account as receipts in the Center's General Fund cost center (001-9913). After opening a separate SCOCA accounting system for the Academy during fiscal year 2014, the Center's Treasurer failed to adjust those receipts out of the Center's special cost center. Also, the Center's Treasurer recorded wire transfers from the Academy's bank account to the Center's bank account for services provided by the Center, and failed to post charges for services receipts in the Center's General Fund special cost center (001-9913) which resulted in an inaccurate cash balance in the Center's General Fund (see Finding Number 2014-001). Therefore, the Center's Treasurer was unable to determine how much the Academy owed the Center and the financial information being reported to the Center's Board was inaccurate.

We recommend that a representative of the Center not directly associated with the Academy participate in reviewing or evaluating the finances or financial records with the Academy Board. We further recommend the Center's Treasurer provide the Academy Board with accurate financial information from the Academy's SCOCA accounting system to allow for monitoring of fiscal performance.

Officials' Response:

The Academy closed June 30, 2017, and the Center no longer sponsors a community school.

FINDING NUMBER 2014-003

Internal Control

The Center entered into a contract with the Lawrence County Academy (the Academy) on May 10, 2013 wherein the Center agreed to be the sponsor for the Academy, a conversion community school. Article VI of the sponsorship contract states, in part, the following:

- If and as agreed by the parties, the Academy shall purchase special education and related services from the Center;
- If the Center provides or secures fiscal services for the Academy, the Academy shall pay the Center for such services agreed upon by them;
- If the Center performs payroll functions for the Academy, the Academy shall reimburse the Center for the actual costs incurred by the Center in compensating and providing benefits to the Academy employees, together with any fees reasonably assessed by the Center;
- If and as agreed by the parties, the Academy shall purchase other services from the Center, which services may include but not be limited to educational administrative, fiscal, technological, EMIS and/or other services;
- As permitted by applicable law, including Section 3314.03(C) of the Ohio Revised Code, the Academy may periodically, in the discretion of its Board of Directors, elect to make additional payments to the Center for any other purposes which the Board of Directors, in its exclusive discretion, deems appropriate, except that the Academy shall not make payments to the Center for the Center's oversight and monitoring of the Academy in excess of three percent of the total amount of payments for operating expenses that the Academy receives from the State. Conversely, the Center may, in the discretion of its governing board, periodically elect to utilize local funds to make enhancements grants to the Academy for any purpose which the governing board, in its exclusive discretion, deems appropriate.

Based on Article VI of the sponsorship contract, the Center agreed to provide staffing to the Academy wherein the Center hired the Director/Superintendent and other staff (with the Academy Board's approval) and pay related expenses. The Center was to then bill the Academy for expenses incurred.

We identified the following conditions related to payments from the Academy to the Center:

- The Academy issued five memo expenditures, totaling \$304,675, which all related to the services that the Academy purchased from the Center. None of the requisitions for the five memo expenditures were signed/approved by the Center's Treasurer (i.e. the Academy's fiscal agent), the Center's Superintendent (i.e. the Academy's Chief Executive Officer) or the Academy's Director/Superintendent. Furthermore, there was no evidence on the invoices that anyone approved them.
- The Center's Treasurer did not maintain documentation for the amount charged by the Center for services provided to the Academy. Related invoices only showed a total dollar amount along with the description "Purchased Services."

FINDING NUMBER 2014-003
(Continued)

- During fiscal year 2014, the Center had two employees who worked at the special education cooperative whose salaries and benefits, totaling \$86,153, were incorrectly charged to SCC 9913 which was, therefore, billed to the Academy as purchased services. Special education cooperative expenditures were tested during the Special Audit performed by the Public Integrity Assurance Team of the Auditor of State that were deemed to not be posted properly. See the Special Audit report released by the Auditor of State for additional information on this matter. There was also a \$775 disbursement charged for Erate consulting services charged incorrectly to the Academy. Furthermore, on August 9, 2013, the Academy Board of Directors approved compensation in the amount of \$500 per month for Teresa Lawless, the Center's Treasurer, to act as fiscal agent. In addition to billing the Academy for the \$500 per month compensation, the Center also billed the Academy for some of Ms. Lawless' fringe benefits (e.g. SERS pick up, health insurance, life insurance, etc.) in the amount of \$5,978 for fiscal year 2014. We also identified that the Academy was billed for \$1,500 for a disbursement posted to SCC 9913 on June 28, 2013 that actually represented a disbursement related to the Lawrence County Schools Council of Governments. Of the total purchased services that the Center billed the Academy for, \$94,406 was determined to have been unallowable expenditures for the Academy.
- The Center's Treasurer did not open a separate SCOCA accounting system for the Academy until the latter part of fiscal year 2014. Instead, the ESC Treasurer began posting the Academy's state foundation monies, casino monies and interest earned on the Academy's bank account as receipts in the Center's General Fund SCC 9913. After opening a separate SCOCA accounting system for the Academy, the Center's Treasurer did not adjust those receipts off of the Center's SCOCA accounting system. When the Center's Treasurer did the wire transfer of the Academy's purchased services expenditure from the Academy's bank account to the Center's bank account, she did not post a charges for services receipt for it in the Center's General Fund SCC 9913. This resulted in inaccurate cash balances included in the Center's General Fund SCCs 9913 and 9914. Therefore, the Center's Board was unable to determine how much the Academy owed the Center at any given point.
- The Center's Treasurer was also the fiscal agent for the Academy. The Center's Treasurer posted all the Academy payments to the Center to the Academy's SCOCA accounting system as memo checks and would wire transfer the check amount from the Academy's bank account to the Center's bank account. The last three memo checks for fiscal year 2014 were posted to the Academy's SCOCA accounting system on June 30, 2014; however, the wire transfers from the Academy's bank account to the Center's bank account did not occur until January 30, 2015.
- There was no segregation of duties related to the Academy's purchased services expenditures. The Center's Treasurer was the individual who tracked the purchased services expenditures for the Center, prepared the invoices from the Center to the Academy to bill them for the purchased services, prepared and posted the memo expenditures for the Academy, wire transferred the monies from the Academy's bank account to the Center's bank account, and was responsible for posting charges for services receipts to the Center's SCOCA accounting system.

Without providing the detailed information of the purchased services and wire transferring the check amounts from the Academy's bank account to the Center's bank account, it was difficult to ensure whether activity was recorded in the proper period. Lack of segregation of duties could result in unauthorized and unsupported transactions and increases the risk that errors, theft or fraud could occur and not be detected in a timely manner.

**FINDING NUMBER 2014-003
(Continued)**

We recommend the Center's Treasurer provide the Academy Director with accurate invoices which include documentation to support the amounts charged by the Center for services provided to the Academy. We recommend someone other than the Center's Treasurer review invoices and supporting documentation to determine accuracy of the invoices to the Academy. Finally, since the Center's Treasurer was the individual responsible for making the wire transfer, we recommend someone other than the Center's Treasurer review all wire transfers, prepare a receipt and post it to the Center's General Fund special costs centers designated for the Academy (SCCs 9913 and 9914) to the charges for services account code.

Officials' Response:

The Academy closed June 30, 2017, and the Center no longer sponsors a community school.

FINDING NUMBER 2014-004

Noncompliance and Internal Control

Ohio Rev. Code §9.38 provides that public money must be deposited with the treasurer of the public office or to a designated depository on the business day following the day of receipt. Public money collected for other public offices must be deposited by the first business day following the date of receipt.

If the amount of daily receipts does not exceed \$1,000 and the receipts can be safeguarded, public offices may adopt a policy permitting their officials who receive this money to hold it past the next business day, but the deposit must be made no later than 3 business days after receiving it. If the public office is governed by a legislative authority (counties, municipalities, townships, and school districts), only the legislative authority may adopt the policy. The policy must include provisions and procedures to safeguard the money during the intervening period. If the amount exceeds \$1,000 or a lesser amount cannot be safeguarded, the public official must then deposit the money on the first business day following the date of receipt.

We noted the following receipts that were not deposited into the designated depository in a timely fashion:

- Receipt number 4980 was posted to the accounting system on January 17, 2014, in amount of \$83,945. The deposit slip and supporting documentation were included with the computerized receipt which was made up of nineteen different checks. We noted the following checks included with that same receipt that were not deposited timely:
 - A check dated September 17, 2013, in the amount of \$12,570.
 - A check dated October 14, 2013, in the amount of \$14,692.
 - A check dated October 16, 2013, in the amount of \$27,215.
 - A check dated October 14, 2013, in the amount of \$4,666.
 - A check dated September 10, 2013, in the amount of \$348
 - A check dated September 12, 2013, in the amount of \$348
 - A check dated September 13, 2013, in the amount of \$348
 - A check dated September 17, 2013, in the amount of \$348

**FINDING NUMBER 2014-004
(Continued)**

- A check dated October 7, 2013, in the amount of \$398

There were other remittance advices included in the receipts bundle; however the dates were not included on the remittance advices.

- Receipt number 5015 was posted to the accounting system on April 21, 2014, in the amount of \$25,135. The deposit slip and supporting documentation were included with the computerized receipt which was made up of eight different checks. We noted the following checks were included with that same receipt and were not deposited timely:
 - A check dated April 3, 2014, in the amount of \$4,930
 - A check dated March 20, 2014, in the amount of \$19,207
 - A check dated March 31, 2014, in the amount of \$689
 - A check dated March 31, 2014, in the amount of \$59
 - A check dated February 20, 2014, in the amount of \$30

There were other remittance advices included in the receipts bundle; however the dates were not included on the remittance advices.

Without timely deposits and the related posting, the Board does not have access to timely accurate financial information to fulfill their responsibility to monitor budgeted and actual revenue activity. Also, the risk of undetected errors, theft, and fraud is increased.

We recommend the Center's Treasurer develop a procedure to timely deposit funds and to timely post all receipts received by the Center to help ensure safety of the assets, increase the amount of interest which can be earned on the monies, provide for more accurate financial reporting and monitoring, and avoid the potential of deficit spending.

Officials' Response:

The Center's current Treasurer posts receipts monthly and all checks are issued in sequential order. The Center and its current Treasurer make timely deposits and posts all receipts.

FINDING NUMBER 2014-005

Internal Control

Sequential Order of Check Numbers

In reviewing the June and July 2014 check registers to determine if checks were issued in sequential order and to determine if checks were posted in the proper period, we noted that checks were not issued in sequential order. The following instances were noted:

- Check #022330 was dated June 4, 2014
- Check #022331 was dated July 1, 2014
- Check #022332 was dated June 13, 2014

**FINDING NUMBER 2014-005
(Continued)**

- Check #022366 was dated June 26, 2014
- Check #022367 was dated July 3, 2014
- Check #022368 was dated June 30, 2014
- Check #022369 was dated July 4, 2014

The check register then skipped the next sequence of numbers until check #022373 and #022374, both dated June 30, 2014. There was another gap in check sequence until check #022383 through #022385, all dated June 30, 2014. There was another gap in sequence until check #022433, dated June 30, 2014.

There were similar instances noted throughout the monthly check registers. It was further noted that memo check numbers were written in sequence with numbers similar to the regular check numbers. This resulted in difficulty in determining if expenditures were posted in the proper periods.

We recommend all checks be issued in sequential order. We further recommend memo checks be assigned numbers that are of a different sequence than the regular check numbers.

Officials' Response:

The Center's current Treasurer issues all checks in sequential order. The Center will assign check numbers for memo checks that are of a different sequence than the regular check numbers.

FINDING NUMBER 2014-006

Internal Control

Leave Approval

The Center's leave forms are required to have the signature of the Superintendent to indicate approval of leave. While testing a sample of leave forms, we noted the following:

- Center's Treasurer's personal leave form contained the Center's Treasurer's signature on the Superintendent's signature line. There was no signature of the Superintendent to indicate approval.
- A staff member's personal leave form contained no signature of approval of the leave.
- The Superintendent signed/approved his own leave form. While it is not the Center's policy, the Center should have someone other than the Superintendent, such as a Board member, approve the Superintendent's leave forms.

Lack of proper approval could result in questions regarding the authenticity of leave approved or taken.

We recommend the Superintendent sign all leave forms to indicate his approval. We further recommend leave not be posted to the accounting system without approval by the Superintendent. Lastly, we recommend someone other than the Superintendent, such as a Board Member, approve the Superintendent's leave forms.

Officials' Response:

The Center has already implemented all of these recommendations. Please see the Center's policies on these topics.

FINDING NUMBER 2014-007

Internal Control

Minute Record

A minute record for the Center's Board meetings was not provided for the month of June 2014 until October 28, 2014. As of that date, we were still unable to obtain the subsequent months of July through September 2014. Furthermore, while the minutes documented the Board's review of the financial statements, there was no indication that official financial information was approved or what the financial statements entailed. This resulted in an inability to determine whether the minute record was accurate and complete and whether proper monitoring of the Center is occurring.

We recommend the minute record be prepared and maintained for every meeting of the Board. We further recommend financial statements be formally approved and the minute record document what items are being reviewed and approved.

Officials' Response:

The Center's current Treasurer implemented these procedures in January 2016.

FINDING NUMBER 2014-008

Noncompliance

Ohio Rev. Code Section 117.38 requires that GAAP-basis entities must file annual reports with the Auditor of State within 150 days of the fiscal year end. The Auditor of State may extend the deadline for filing a financial report and establish terms and conditions for any such extension. Any public office which does not file the report by the required date shall pay a penalty of twenty-five dollars for each day the report remains unfiled after the filing date; provided that the penalty payments shall not exceed seven hundred fifty dollars.

The Center's annual report was due to be filed with the Auditor of State on November 30, 2014. The Center requested and was granted a filing extension for its annual report through January 31, 2015. However, the Center did not file its annual financial report for 2014 until February 12, 2015.

We recommend the Center file the annual financial report with the Auditor of State within 150 days of the fiscal year end.

Officials' Response:

The ESC and its current Treasurer will work to file the annual financial report on a timely basis as soon as possible following receipt of the information needed from the Auditor of State's office.



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
MARCH 20, 2018