



Dave Yost • Auditor of State

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report on the Financial Statements, Internal Control, and Compliance.....	1
Prepared by Management:	
Management’s Discussion and Analysis For the Fiscal Year Ended June 30, 2016	3
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position As of June 30, 2016.....	9
Statement of Activities For the Fiscal Year Ended June 30, 2016.....	10
Fund Financial Statements:	
Balance Sheet Governmental Funds As of June 30, 2016.....	11
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Fiscal Year Ended June 30, 2016.....	12
Statement of Fiduciary Assets and Liabilities Agency Funds As of June 30, 2016.....	13
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2016	15
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Budget Basis) and Actual – General Fund – For the Fiscal Year Ended June 30, 2016	35
Notes to the Supplementary Information For the Fiscal Year Ended June 30, 2016	36
Management’s Discussion and Analysis For the Fiscal Year Ended June 30, 2015	37

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**TABLE OF CONTENTS
(Continued)**

TITLE	PAGE
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position As of June 30, 2015.....	43
Statement of Activities For the Fiscal Year Ended June 30, 2015.....	44
Fund Financial Statements:	
Balance Sheet Governmental Funds As of June 30, 2015.....	45
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds For the Fiscal Year Ended June 30, 2015.....	46
Statement of Fiduciary Assets and Liabilities Agency Funds As of June 30, 2015.....	47
Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2015	49
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget (Budget Basis) and Actual – General Fund – For the Fiscal Year Ended June 30, 2015	69
Notes to the Supplementary Information For the Fiscal Year Ended June 30, 2015	70
Schedule of Findings.....	71
Summary Schedule of Prior Audit Findings (Prepared by Management).....	93



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 years ended June 30, 2016 and 2015. 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 2016-001 through 2016-006, 2016-010 and 2016-011 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 2016-001, 2016-002, 2016-004, 2016-006 through 2016-009 and 2016-012 through 2016-016.

A handwritten signature in black ink that reads "Dave Yost". The signature is fluid and cursive, with the first letters of "Dave" and "Yost" being capitalized and prominent.

Dave Yost
Auditor of State

Columbus, Ohio

December 13, 2018

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

As management of the Lawrence County Educational Service Center, we offer the readers of the Educational Service Center's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the basic financial statements to enhance their understanding of the Educational Service Center's performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2016 are as follows:

- Net position of governmental activities decreased \$74,855.
- General cash receipts accounted for \$78,721 or 2.6 percent of all program specific and general cash receipts. Program specific cash receipts in the form of charges for services, sales, grants, and contributions accounted for \$2,985,465 or 97.4 percent of total program specific and general cash receipts.
- The Educational Service Center had \$3,481,760 in cash disbursements; \$2,985,465 of these cash disbursements were offset by program specific charges for services, sales, grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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

Report Components

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

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

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

Basis of Accounting

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

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

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during 2016, within the limitations of the cash basis of accounting. The statement of net position presents the cash balances and investments of the governmental activities of the Educational Service Center at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the Educational Service Center's major fund, not the Educational Service Center as a whole. The Educational Service Center uses a number of funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs and services. Since the Educational Service Center is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. See Note 2 to the basic financial statements for more information.

Lawrence County Educational Service Center

*Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited*

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

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2016 as compared to 2015.

Table 1
Net Position

	Governmental Activities	
	2016	2015
Assets		
Current Assets	\$ 1,675,496	\$ 1,750,351
Total Assets	<u>1,675,496</u>	<u>1,750,351</u>
Net Position		
Restricted	104,476	-
Unrestricted	1,571,020	1,750,351
Total Net Position	<u>\$ 1,675,496</u>	<u>\$ 1,750,351</u>

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

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2016 as compared to 2015.

Table 2
Changes in Net Position

	Governmental Activities	
	2016	2015
Revenues		
Program Cash Receipts		
Charges for Services	\$ 2,646,635	\$ 3,871,179
Operating Grants and Contributions	338,830	254,515
Total Program Cash Receipts	<u>2,985,465</u>	<u>4,125,694</u>
General Cash Receipts		
Grants and Entitlements, Not Restricted	69,989	9,127
Gifts and Donations, Not Restricted	4,100	-
Investment Earnings	1,581	1,636
Refund of Prior Year Expenditures	767	20,949
Miscellaneous	2,284	9,338
Total General Cash Receipts	<u>78,721</u>	<u>41,050</u>
Total Cash Receipts	<u>3,064,186</u>	<u>4,166,744</u>
Program Disbursements		
Instruction:		
Regular	168,159	170,631
Special	828,013	1,127,528
Student Intervention Services	5,762	17,398
Support Services:		
Pupils	690,750	547,247
Instructional Staff	487,206	472,853
Board of Education	124,318	44,610
Administration	404,419	439,920
Fiscal	340,192	372,156
Operation and Maintenance of Plant	53,491	47,819
Central	364,990	593,146
Capital Outlay	14,460	30,970
Total Cash Disbursements	<u>3,481,760</u>	<u>3,864,278</u>
Increase (Decrease) in Net Position Before Special Items	(417,574)	302,466
Special Item	342,719	370,177
Increase (Decrease) in Net Position	(74,855)	672,643
Net Position, Beginning of Year	<u>1,750,351</u>	<u>1,077,708</u>
Net Position, End of Year	<u>\$ 1,675,496</u>	<u>\$ 1,750,351</u>

Governmental Activities

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 97.4% of total governmental revenue. Revenue from charges for services decreased during fiscal year 2016. Charges for services and special instruction decreased due to additional services provided to the local districts and the Lawrence County Academy in the prior year, which did not occur at the same level in 2016.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

Total disbursements decreased from 2015 to 2016. The largest disbursements of the Educational Service Center are for support services, which totaled \$2,465,366 or 71% of total governmental disbursements for the year. Central decreased due a decrease in purchase services for insurance services. Board of Education increased due to an increase in purchased services and miscellaneous disbursements. Fluctuations for disbursements are directly related to the needs of the Educational Service Center's member School Districts.

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

Table 3
 Governmental Activities

	Total Cost of Services <u>2016</u>	Net Cost of Services <u>2016</u>	Total Cost of Services <u>2015</u>	Net Cost of Services <u>2015</u>
Program Disbursements				
Instruction:				
Regular	\$ 168,159	\$ (94,173)	\$ 170,631	\$ 38,473
Special	828,013	(45,848)	1,127,528	(280,227)
Student Intervention Services	5,762	851	17,398	(1,446)
Support Services:				
Pupils	690,750	175,052	547,247	(10,530)
Instructional Staff	487,206	123,762	472,853	(9,651)
Board of Education	124,318	31,001	44,610	(615)
Administration	404,419	102,368	439,920	(8,563)
Fiscal	340,192	87,255	372,156	(8,489)
Operation and Maintenance of Plant	53,491	9,160	47,819	2,287
Central	364,990	92,407	593,146	(13,625)
Capital Outlay	14,460	14,460	30,970	30,970
Totals	<u>\$ 3,481,760</u>	<u>\$ 496,295</u>	<u>\$ 3,864,278</u>	<u>\$ (261,416)</u>

THE EDUCATIONAL SERVICE CENTER'S FUNDS

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

The General Fund had \$3,129,305 in cash receipts, other financing sources, and special items and \$3,320,274 in cash disbursements and other financing uses. The net change in fund balance for the General Fund was a decrease of \$190,969.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2016
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Educational Service Center does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The Educational Service Center had \$14,460 in capital outlay disbursements during fiscal year 2016.

DEBT

The Educational Service Center did not have any debt outstanding as of June 30, 2016.

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

Lawrence County Educational Service Center

Statement of Net Position - Cash Basis

As of June 30, 2016

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,675,496</u>
<i>Total Assets</i>	<u>1,675,496</u>
Net Position	
Restricted for:	
Other Purposes	104,476
Unrestricted	<u>1,571,020</u>
<i>Total Net Position</i>	<u><u>\$ 1,675,496</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2016

	Program Cash Receipts			Net (Cash Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Cash Receipts and Changes in Net Position
			Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 168,159	\$ 180,432	\$ 81,900	\$ 94,173
Special	828,013	619,271	254,590	45,848
Student Intervention Services	5,762	4,911	-	(851)
Support Services:				
Pupils	690,750	515,698	-	(175,052)
Instructional Staff	487,206	363,444	-	(123,762)
Board of Education	124,318	93,317	-	(31,001)
Administration	404,419	302,051	-	(102,368)
Fiscal	340,192	252,937	-	(87,255)
Operation and Maintenance of Plant	53,491	41,991	2,340	(9,160)
Central	364,990	272,583	-	(92,407)
Capital Outlay	14,460	-	-	(14,460)
Totals	\$ 3,481,760	\$ 2,646,635	\$ 338,830	(496,295)
General Cash Receipts				
				69,989
Grants and Entitlements not Restricted to Specific Programs				1,581
Investment Earnings				4,100
Gifts and Donations not Restricted to Specific Programs				767
Refund of Prior Year Expenditures				2,284
Miscellaneous				<u>78,721</u>
<i>Total General Cash Receipts</i>				<u>342,719</u>
Special Item - Surplus Funds				<u>(74,855)</u>
<i>Change in Net Position</i>				<u>1,750,351</u>
<i>Net Position at Beginning of Year</i>				<u>\$ 1,675,496</u>
<i>Net Position at End of Year</i>				<u><u>\$ 1,675,496</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
As of June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,571,020	\$ 104,476	\$ 1,675,496
<i>Total Assets</i>	<u>\$ 1,571,020</u>	<u>\$ 104,476</u>	<u>\$ 1,675,496</u>
Fund Balances			
Restricted	-	104,476	104,476
Assigned	81,918	-	81,918
Unassigned	1,489,102	-	1,489,102
<i>Total Fund Balances</i>	<u>\$ 1,571,020</u>	<u>\$ 104,476</u>	<u>\$ 1,675,496</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2016

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts			
Intergovernmental	\$ 322,151	\$ 86,668	\$ 408,819
Interest	1,581	-	1,581
Charges for Services	733,964	190,932	924,896
Contract Services	1,719,939	-	1,719,939
Rent	1,800	-	1,800
Gifts and Donations	4,100	-	4,100
Miscellaneous	2,284	-	2,284
<i>Total Cash Receipts</i>	<u>2,785,819</u>	<u>277,600</u>	<u>3,063,419</u>
Cash Disbursements			
Current:			
Instruction:			
Regular	-	168,159	168,159
Special	822,972	5,041	828,013
Student Intervention Services	5,762	-	5,762
Support Services:			
Pupils	690,750	-	690,750
Instructional Staff	487,206	-	487,206
Board of Education	124,318	-	124,318
Administration	404,419	-	404,419
Fiscal	340,192	-	340,192
Operation and Maintenance of Plant	48,699	4,792	53,491
Central	364,990	-	364,990
Capital Outlay	14,460	-	14,460
<i>Total Cash Disbursements</i>	<u>3,303,768</u>	<u>177,992</u>	<u>3,481,760</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>(517,949)</u>	<u>99,608</u>	<u>(418,341)</u>
Other Financing Sources (Uses)			
Advances In	-	16,506	16,506
Refund of Prior Year Expenditures	767	-	767
Advances Out	(16,506)	-	(16,506)
<i>Total Other Financing Sources (Uses)</i>	<u>(15,739)</u>	<u>16,506</u>	<u>767</u>
Special Item			
Surplus Funds	342,719	-	342,719
<i>Net Change in Fund Balances</i>	(190,969)	116,114	(74,855)
<i>Fund Balances (Deficits) at Beginning of Year</i>	<u>1,761,989</u>	<u>(11,638)</u>	<u>1,750,351</u>
<i>Fund Balances at End of Year</i>	<u>\$ 1,571,020</u>	<u>\$ 104,476</u>	<u>\$ 1,675,496</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Fiduciary Net Position - Cash Basis
Agency Funds
June 30, 2016

	Lawrence County School Council of Governments	Component Unit - Lawrence County Academy
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 2,884,197	\$ 117,102
<i>Total Assets</i>	\$ 2,884,197	\$ 117,102
NET POSITION:		
Unrestricted	\$ 2,884,197	\$ 117,102
<i>Total Net Position</i>	\$ 2,884,197	\$ 117,102

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, 2016

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 24 support staff employees and 27 certified administrators that provide services to the school districts.

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

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

Lawrence County Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The Academy’s objective is to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students.

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 9 to the basic financial statements.

The Educational Service Center serves as the fiscal agent for the Lawrence County Schools Council of Governments Health Benefits Program. The Educational Service Center served as the fiscal agent for the Lawrence County Academy until December 31, 2015. Accordingly, these organizations are presented as fiduciary funds within the Center’s financial statements.

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

B. Fund Accounting

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

Governmental Funds

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

General Fund

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

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

Fiduciary Fund Type

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

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

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

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

Cash Receipts – Exchange and Non-exchange Transactions

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

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

Cash Disbursements

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

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

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. As of June 30, 2016, the Educational Service Center had no investments.

E. Capital Assets and Depreciation

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

F. Compensated Absences

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

G. Accrued Liabilities and Long-Term Obligations

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

H. Net Position

Net cash position represents the cash assets held by the Educational Service Center at year end. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for Other Purposes is comprised of net position restricted for state and federal programs. The Educational Service Center applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net position is available. As of June 30, 2016, the Educational Service Center had no net position restricted by enabling legislation.

I. Fund Balance

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

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

J. Pensions

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

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

K. Special Item

The Educational Service Center received monies in excess of the amount due for services provided during the year from the Lawrence County Academy. This surplus has been recorded as a special item in the accompanying financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
9. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

As of June 30, 2016, the Educational Service Center's bank balance of \$4,650,247 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

The Lawrence County Academy's bank balance of \$163,434 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

NOTE 4 - STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$35. This amount is provided from State resources.

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 5 - RISK MANAGEMENT

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

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

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

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

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

For fiscal year 2016, the Educational Service Center participated in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to improve safety, accident prevention, and claims handling for the Educational Service Center. Participation in the GRP is limited to those school districts and educational service centers that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

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

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

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

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

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2016, the entire allocation was designated to pension, death benefits, and Medicare B. There was no percentage allocated to the Health Care Fund for fiscal year 2016.

The Educational Service Center's contractually required contribution to SERS was \$81,631 for fiscal year 2016.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation is 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five years of service on August 1, 2026.

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

The Combined Plan offers features of both the DB Plan and the DC Plan. In the Combined Plan, member contributions are allocated among investment choices by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60 with five years of services. The defined contribution portion of the account may be taken as a lump sum payment or converted to a lifetime monthly annuity at age 50. In the Combined Plan, 11 percent of the 12 percent member rate goes to the DC Plan and the remaining 1 percent is applied to the DB Plan.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. Through June 30, 2015, the employer rate was 14% and the member rate was 12% of covered payroll. For the fiscal year ended June 30, 2016, plan members were required to contribute 13 percent of their annual covered salary. Effective July 1, 2016, the statutory maximum employee contribution rate was increased one percent to 14 percent. The School District was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2016 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS Ohio was \$194,904 for fiscal year 2016.

Net Pension Liability

The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportion of the Net Pension Liability - Current Year	0.0189675%	0.01400139%	
Proportion of the Net Pension Liability - Prior Year	<u>0.0162250%</u>	<u>0.01208128%</u>	
Change from Prior Year	<u>0.0027425%</u>	<u>0.00192011%</u>	
Proportionate Share of the Net Pension Liability	\$1,082,304	\$3,869,575	\$4,951,879

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2015, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3.00 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS (continued)

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Estate	10.00	5.00
Hedge Funds	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$1,500,767	\$1,082,304	\$729,924

Changes Between Measurement Date and Report Date In April 2016, the SERS Board adopted certain assumption changes which impacted their annual actuarial valuation prepared as of June 30, 2016. The most significant change is a reduction in the discount rate from 7.75 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the School District's net pension liability is expected to be significant.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

Actuarial assumptions used in the June 30, 2015, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

* 10 year annualized geometric nominal returns include the real rate of return and inflation of 2.5 percent.

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2015. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2015. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2015.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Educational Service Center's proportionate share of the net pension liability	\$5,375,131	\$3,869,575	\$2,596,402

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2016, none of the Educational Service Center’s members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 7 - POSTEMPLOYMENT BENEFITS

State Teachers Retirement System

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

Funding Policy – Ohio Revised Code Chapter 3307 authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Health Care Plan. All benefit recipients, for the most recent year, pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For fiscal year 2016, STRS Ohio allocated employer contributions equal to 0 percent of covered payroll to post-employment health care. The Educational Service Center’s contributions for health care for the fiscal years ended June 30, 2016, 2015, and 2014, were \$0, \$0, and \$10,419, respectively, which equaled the required contributions each year.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 7 - 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 a postemployment benefit plan.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. At June 30, 2016, 2015, and 2014, the health care allocations were 0 percent, 0.82 percent, and 0.14 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2016, the minimum compensation level was established at \$23,000. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the Educational Service Center, the amounts assigned to health care, including the surcharge, during the 2016, 2015, and 2014 fiscal years equaled \$8,230, \$13,399, and \$7,603, respectively; which is equal to the required amounts for those years.

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

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

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.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 8 - EMPLOYEE BENEFITS (continued)

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 \$1,756.79, for family coverage and seventy-five percent of monthly premiums, or \$711.25 for individual coverage for Plan 1. The Educational Service Center pays seventy-five percent of monthly premiums, or \$1,341.82, for family coverage and seventy-five percent of monthly premiums, or \$543.25 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 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association Council of Governments - The Educational Service Center is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 59 public education entities, 60 non-public education entities, 2 private schools, and public libraries from 23 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 SCOCA COG consists of two representatives from each of the eleven participating counties, two school treasurers, and a representative for the fiscal agent. SCOCA COG 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 \$37,300 for services provided during fiscal year 2016. Financial information for SCOCA COG can be obtained from their fiscal office located at Pike County Career Technology Center, P.O. Box 577, 175 Beaver Creek, Piketon, Ohio 45661.

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 2016.

NOTE 10 - INSURANCE PURCHASING POOLS

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

The Educational Service Center participates in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2016*

NOTE 10 - INSURANCE PURCHASING POOLS (continued)

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

NOTE 11 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2016, if applicable, cannot be determined at this time.

B. Litigation

The Educational Service Center is currently party to legal proceedings. However, no liability has been accrued since the ultimate disposition of these claims and legal proceedings has yet to be determined and the amount of liability, if any, is not measurable.

NOTE 12 – FUND BALANCES

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

Fund Balances	General Fund	Other Governmental Funds	Total Governmental Funds
Restricted for			
Alternative School Grant	\$0	\$104,476	\$104,476
Total Restricted	0	104,476	104,476
Assigned to			
Other Purposes	81,918	0	81,918
Unassigned	1,489,102	0	1,489,102
Total Fund Balances	\$1,571,020	\$104,476	\$1,675,496

NOTE 13 – INTERFUND ACTIVITY

During the year, the Educational Service Center's General Fund made an advance in the amount of \$16,506 to the Alternative School Grant Fund in anticipation of grant receipts. This advance is expected to be repaid during fiscal year 2017.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2016

NOTE 14 – NEW ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2016, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*.

GASB Statement No. 72 clarifies the definition of fair value for financial reporting purposes, establishes general principles for measuring fair value, provides additional fair value application guidance, and enhances disclosures about fair value measurements. These changes were incorporated in the Educational Service Center's fiscal year 2016 note disclosures; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 73 establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also clarifies the application of certain provisions of GASB Statements 67 and 68. The implementation of GASB Statement No. 73 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The implementation of GASB Statement No. 76 did not have an effect on the financial statements of the Educational Service Center.

GASB Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The implementation of GASB Statement No. 79 did not have an effect on the financial statements of the Educational Service Center.

NOTE 15 – SUBSEQUENT EVENTS

Metropolitan Educational Technology Association (META) Solutions

META Solutions is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC) in February 2015. Metropolitan Dayton Educational Cooperative Association (MDECA), and Southeastern Ohio Voluntary Education Cooperative (SEOVEC) also merged with META Solutions on January 4, 2016. META Solutions develops, implements and supports the technology and instructional needs of schools and provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of eight members from member districts. The South Central Ohio Computer Association Council of Governments was in the process of merging with META, however, as of the date of this financial report, the merger had not fully been completed.

Lawrence County Academy

A settlement agreement was signed stating that the Lawrence County Academy will close as of June 30, 2017. Assets of any kind shall be transferred to the Educational Service Center.

NOTE 16 – COMPLIANCE

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

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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, 2016*

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
Cash Receipts				
Intergovernmental	\$ 243,871	\$ 322,151	\$ 322,151	\$ -
Interest	1,462	1,460	1,581	121
Rent	1,900	1,800	1,800	-
Gifts and Donations	-	4,100	4,100	-
Charges for Services	3,154,955	743,964	733,964	(10,000)
Contract Services	-	1,719,939	1,719,939	-
Miscellaneous	713,631	344,712	2,284	(342,428)
<i>Total Cash Receipts</i>	4,115,819	3,138,126	2,785,819	(352,307)
Cash Disbursements				
Current:				
Instruction:				
Regular	4,511	-	-	-
Special	1,153,423	822,973	822,972	1
Student Intervention Services	17,398	5,762	5,762	-
Support Services:				
Pupils	468,773	690,881	690,881	-
Instructional Staff	477,211	495,137	495,137	-
Board of Education	47,041	179,001	179,002	(1)
Administration	445,238	404,728	404,728	-
Fiscal	374,021	341,483	341,483	-
Operation and Maintenance of Plant	46,386	50,731	50,731	-
Central	992,124	394,990	394,990	-
<i>Total Cash Disbursements</i>	4,026,126	3,385,686	3,385,686	-
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	89,693	(247,560)	(599,867)	(352,307)
Other Financing Sources				
Transfers In	-	1,215,331	-	(1,215,331)
Advances Out	-	(16,506)	(16,506)	-
Refund of Prior Year Expenditures	20,949	767	767	-
Transfers Out	-	(1,215,330)	-	1,215,330
<i>Total Other Financing Sources</i>	20,949	(15,738)	(15,739)	(1)
Special Item				
Surplus Funds	-	-	342,719	342,719
<i>Net Change in Fund Balance</i>	110,642	(263,298)	(272,887)	(9,589)
<i>Fund Balance at Beginning of Year</i>	1,709,947	1,709,947	1,709,947	-
<i>Prior Year Encumbrances Appropriated</i>	52,042	52,042	52,042	-
<i>Fund Balance at End of Year</i>	<u>\$ 1,872,631</u>	<u>\$ 1,498,691</u>	<u>\$ 1,489,102</u>	<u>\$ (9,589)</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, 2016*

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

<u>Net Changes in Fund Balances</u>	
	<u>General</u>
Cash Basis	\$ (190,969)
Adjustments:	
Encumbrances	<u>(81,918)</u>
Budget Basis	<u><u>\$ (272,887)</u></u>

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

As management of the Lawrence County Educational Service Center, we offer the readers of the Educational Service Center's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the additional information that we have provided in the basic financial statements to enhance their understanding of the Educational Service Center's performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for the fiscal year 2015 are as follows:

- Net position of governmental activities increased \$672,643.
- General cash receipts accounted for \$41,050 or 1 percent of all program specific and general cash receipts. Program specific cash receipts in the form of charges for services, sales, grants, and contributions accounted for \$4,125,694 or 99 percent of total program specific and general cash receipts.
- The Educational Service Center had \$3,864,278 in cash disbursements; All of these cash disbursements were offset by program specific charges for services, sales, grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

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

Report Components

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

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

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

Basis of Accounting

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

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

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Reporting the Educational Service Center as a Whole

Statement of Net Position and Statement of Activities

The statement of net position and the statement of activities reflect how the Educational Service Center did financially during 2015, within the limitations of the cash basis of accounting. The statement of net position presents the cash balances and investments of the governmental activities of the Educational Service Center at year end. The statement of activities compares cash disbursements with program receipts for each governmental program. Program receipts include charges paid by the recipient of the program's goods or services and grants restricted to meeting the operational or capital requirements of a particular program. General receipts are all receipts not classified as program receipts. The comparison of cash disbursements with program receipts identifies how each governmental function draws from the Educational Service Center's general receipts.

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

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about the Educational Service Center's major fund, not the Educational Service Center as a whole. The Educational Service Center uses a number of funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental fund is the General Fund.

Governmental Funds All of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs and services. Since the Educational Service Center is reporting on the cash basis of accounting, there are no differences in the net position and fund cash balances or changes in net position and changes in fund cash balances. Therefore, no reconciliation is necessary between such financial statements. See Note 2 to the basic financial statements for more information.

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2015

Unaudited

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

THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the statement of net position provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the Educational Service Center's net position for 2015 as compared to 2014.

Table 1
Net Position

	Governmental Activities	
	2015	2014*
Assets		
Current Assets	\$ 1,750,351	\$ 1,077,708
Total Assets	<u>1,750,351</u>	<u>1,077,708</u>
Net Position		
Restricted	-	30,006
Unrestricted	1,750,351	1,047,702
Total Net Position	<u>\$ 1,750,351</u>	<u>\$ 1,077,708</u>

* As restated, see Note 13.

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

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

Table 2 shows the changes in net position for the fiscal year ended June 30, 2015. A comparison between the two years is not shown due to the Educational Service Center's change in accounting method.

Table 2
Changes in Net Position

	Governmental Activities <u>2015</u>
Cash Receipts	
Program Cash Receipts	
Charges for Services	\$ 3,871,179
Operating Grants and Contributions	254,515
Total Program Cash Receipts	<u>4,125,694</u>
General Cash Receipts	
Grants and Entitlements, Not Restricted	9,127
Investment Earnings	1,636
Refund of Prior Year Expenditures	20,949
Miscellaneous	9,338
Total General Cash Receipts	<u>41,050</u>
Total Cash Receipts	<u>4,166,744</u>
Program Cash Disbursements	
Instruction:	
Regular	170,631
Special	1,127,528
Student Intervention Services	17,398
Support Services:	
Pupils	547,247
Instructional Staff	472,853
Board of Education	44,610
Administration	439,920
Fiscal	372,156
Operation and Maintenance of Plant	47,819
Central	593,146
Capital Outlay	30,970
Total Cash Disbursements	<u>3,864,278</u>
Increase in Net Position Before Special Items	302,466
Special Item	370,177
Increase in Net Position	672,643
Net Position, Beginning of Year - As Restated, See Note 13	1,077,708
Net Position, End of Year	<u>\$ 1,750,351</u>

Governmental Activities

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 99% of total governmental revenue. Revenue from charges for services increased during fiscal year 2015. Charges for services and special instruction increased due to additional services provided to the local districts and the Lawrence County Academy.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

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. Due to a change in accounting method by the Educational Service Center, a comparison between 2015 and 2014 will not be presented.

Table 3
Governmental Activities

	Total Cost of Services 2015	Net Cost of Services 2015
Program Cash Disbursements		
Instruction:		
Regular	\$ 170,631	\$ 38,473
Special	1,127,528	(280,227)
Student Intervention Services	17,398	(1,446)
Support Services:		
Pupils	547,247	(10,530)
Instructional Staff	472,853	(9,651)
Board of Education	44,610	(615)
Administration	439,920	(8,563)
Fiscal	372,156	(8,489)
Operation and Maintenance of Plant	47,819	2,287
Central	593,146	(13,625)
Capital Outlay	30,970	30,970
Totals	\$ 3,864,278	\$ (261,416)

THE EDUCATIONAL SERVICE CENTER'S FUNDS

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

The General Fund had \$4,434,504 in cash receipts, other financing sources, and special items and \$3,720,217 in cash disbursements. The net change in fund balance for the General Fund was an increase of \$714,287.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2015
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Educational Service Center does not record capital assets in the accompanying basic financial statements, but records payments for capital assets as disbursements. The Educational Service Center had \$30,970 in capital outlay disbursements during fiscal year 2015.

DEBT

The Educational Service Center did not have any debt outstanding as of June 30, 2015.

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

Lawrence County Educational Service Center

Statement of Net Position - Cash Basis

As of June 30, 2015

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 1,750,351</u>
<i>Total Assets</i>	<u>1,750,351</u>
Net Position	
Unrestricted	<u>1,750,351</u>
<i>Total Net Position</i>	<u><u>\$ 1,750,351</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Activities - Cash Basis
For the Fiscal Year Ended June 30, 2015

	Program Cash Receipts			Net (Cash Disbursements)
	Cash Disbursements	Charges for Services	Operating Grants and Contributions	Cash Receipts and Changes in Net Position
			Governmental Activities	
Governmental Activities:				
Instruction:				
Regular	\$ 170,631	\$ 132,158	\$ -	\$ (38,473)
Special	1,127,528	1,153,240	254,515	280,227
Student Intervention Services	17,398	18,844	-	1,446
Support Services:				
Pupils	547,247	557,777	-	10,530
Instructional Staff	472,853	482,504	-	9,651
Board of Education	44,610	45,225	-	615
Administration	439,920	448,483	-	8,563
Fiscal	372,156	380,645	-	8,489
Operation and Maintenance of Plant	47,819	45,532	-	(2,287)
Central	593,146	606,771	-	13,625
Capital Outlay	30,970	-	-	(30,970)
Totals	\$ 3,864,278	\$ 3,871,179	\$ 254,515	261,416
General Cash Receipts				
Grants and Entitlements not Restricted to Specific Programs				9,127
Investment Earnings				1,636
Refund of Prior Year Expenditures				20,949
Miscellaneous				9,338
<i>Total General Cash Receipts</i>				<u>41,050</u>
Special Item - Surplus Funds				<u>370,177</u>
<i>Change in Net Position</i>				672,643
<i>Net Position at Beginning of Year - As Restated</i>				<u>1,077,708</u>
<i>Net Position at End of Year</i>				<u>\$ 1,750,351</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Assets and Fund Balances - Cash Basis
Governmental Funds
As of June 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Equity in Pooled Cash and Cash Equivalents	\$ 1,761,989	\$ (11,638)	\$ 1,750,351
<i>Total Assets</i>	<u>\$ 1,761,989</u>	<u>\$ (11,638)</u>	<u>\$ 1,750,351</u>
Fund Balances			
Assigned	52,042	-	52,042
Unassigned	1,709,947	(11,638)	1,698,309
<i>Total Fund Balances</i>	<u>1,761,989</u>	<u>(11,638)</u>	<u>1,750,351</u>
<i>Total Fund Balances</i>	<u>\$ 1,761,989</u>	<u>\$ (11,638)</u>	<u>\$ 1,750,351</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Cash Receipts, Disbursements and Changes in Fund Balances - Cash Basis
Governmental Funds
For the Fiscal Year Ended June 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Cash Receipts			
Intergovernmental	\$ 263,642	\$ -	\$ 263,642
Interest	1,636	-	1,636
Charges for Services	2,016,343	102,417	2,118,760
Contract Services	1,750,519	-	1,750,519
Rent	1,900	-	1,900
Miscellaneous	9,338	-	9,338
<i>Total Cash Receipts</i>	<u>4,043,378</u>	<u>102,417</u>	<u>4,145,795</u>
Cash Disbursements			
Current:			
Instruction:			
Regular	31,178	139,453	170,631
Special	1,127,528	-	1,127,528
Student Intervention Services	17,398	-	17,398
Support Services:			
Pupils	546,352	895	547,247
Instructional Staff	472,853	-	472,853
Board of Education	44,610	-	44,610
Administration	439,920	-	439,920
Fiscal	372,156	-	372,156
Operation and Maintenance of Plant	44,106	3,713	47,819
Central	593,146	-	593,146
Capital Outlay	30,970	-	30,970
<i>Total Cash Disbursements</i>	<u>3,720,217</u>	<u>144,061</u>	<u>3,864,278</u>
<i>Excess of Cash Receipts Over (Under) Cash Disbursements</i>	<u>323,161</u>	<u>(41,644)</u>	<u>281,517</u>
Other Financing Sources			
Refund of Prior Year Expenditures	20,949	-	20,949
Special Item			
Surplus Funds	370,177	-	370,177
<i>Net Change in Fund Balances</i>	714,287	(41,644)	672,643
<i>Fund Balances at Beginning of Year - As Restated, See Note 13</i>	<u>1,047,702</u>	<u>30,006</u>	<u>1,077,708</u>
<i>Fund Balances (Deficits) at End of Year</i>	<u>\$ 1,761,989</u>	<u>\$ (11,638)</u>	<u>\$ 1,750,351</u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Fiduciary Net Position - Cash Basis
Agency Funds
June 30, 2015

	<u>Lawrence County School Council of Governments</u>	<u>Component Unit - Lawrence County Academy</u>
ASSETS:		
Equity in Pooled Cash and Cash Equivalents	\$ 4,145,854	\$ 400,166
<i>Total Assets</i>	<u>\$ 4,145,854</u>	<u>\$ 400,166</u>
NET POSITION:		
Unrestricted	\$ 4,145,854	\$ 400,166
<i>Total Net Position</i>	<u>\$ 4,145,854</u>	<u>\$ 400,166</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, 2015

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 16 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 Educational Service Center has the following component unit:

Lawrence County Academy is a nonprofit corporation established pursuant to Ohio Revised Code Chapters 3314 and 1702 to address the needs of students in grades seven through twelve. The Academy's objective is to enhance and facilitate student learning among non-traditional student populations while utilizing a variety of innovative resources and educational strategies, which are customized to meet the needs of the individual students.

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 9 to the basic financial statements.

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

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

B. Fund Accounting

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

Governmental Funds

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

General Fund

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

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

Fiduciary Fund Type

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

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

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

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

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

Cash Receipts – Exchange and Non-exchange Transactions

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

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

Cash Disbursements

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

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

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents. As of June 30, 2015, the Educational Service Center had no investments.

E. Capital Assets and Depreciation

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

F. Compensated Absences

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

G. Accrued Liabilities and Long-Term Obligations

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

H. Net Position

Net cash position represents the cash assets held by the Educational Service Center at year end. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Restricted for Other Purposes is comprised of net position restricted for state and federal programs. The Educational Service Center applies restricted resources when a cash disbursement is made for purposes for which both restricted and unrestricted net position is available. As of June 30, 2015, the Educational Service Center had no net position restricted by enabling legislation.

I. Fund Balance

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

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

J. Pensions

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

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

K. Special Item

The Educational Service Center received monies in excess of the amount due for services provided during the year from the Lawrence County Academy. This surplus has been recorded as a special item in the accompanying financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
9. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

As of June 30, 2015, the Educational Service Center's bank balance of \$6,022,425 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

The Lawrence County Academy's bank balance of \$400,166 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

NOTE 4 - STATE FUNDING

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

Part (B) of the budget is provided by the school districts to which the Educational Service Center provides services and by the State Department of Education. Each school district's portion is determined by multiplying the average daily membership of the school district (the total number of students enrolled) by \$6.50. This amount is deducted by the State Department of Education from that school district's resources provided under the State's Foundation Program. The Department of Education's portion is determined by multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$35. This amount is provided from State resources.

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 5 - RISK MANAGEMENT

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

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

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

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

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

For fiscal year 2015, the Educational Service Center participated in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool (Note 10). The intent of the GRP is to improve safety, accident prevention, and claims handling for the Educational Service Center. Participation in the GRP is limited to those school districts and educational service centers that can meet the GRP's selection criteria. The firm of Sheakley Uniservice provides administrative, cost control and actuarial services to the GRP.

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Net Pension Liability

For fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions” and GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68” were effective. These GASB pronouncements had no effect on beginning net position as reported June 30, 2014, as the net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

The net pension liability represents the Educational Service Center’s proportionate share of each pension plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan’s fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

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

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

Plan Description - School Employees Retirement System (SERS)

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

Age and service requirements for retirement are as follows:

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

Funding Policy – Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to statutory maximum amounts of 10 percent for plan members and 14 percent for employers. The Retirement Board, acting with the advice of the actuary, allocates the employer contribution rate among four of the System's funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund). For the fiscal year ended June 30, 2015, the allocation to pension, death benefits, and Medicare B was 13.18 percent. The remaining 0.82 percent of the 14 percent employer contribution rate was allocated to the Health Care Fund.

The Educational Service Center's contractually required contribution to SERS was \$75,258 for fiscal year 2015.

Plan Description - State Teachers Retirement System (STRS)

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

New members have a choice of three retirement plans; a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. Benefits are established by Ohio Revised Code Chapter 3307. The DB plan offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service. Effective August 1, 2015, the calculation will be 2.2 percent of final average salary for the five highest years of earnings multiplied by all years of service. With certain exceptions, the basic benefit is increased each year by two percent of the original base benefit. For members retiring August 1, 2013, or later, the first two percent is paid on the fifth anniversary of the retirement benefit. Members are eligible to retire at age 60 with five year of qualifying service credit, or age 55 with 25 years of service, or 30 years of service regardless of age. Age and service requirements for retirement will increase effective August 1, 2015, and will continue to increase periodically until they reach age 60 with 35 years of service or age 65 with five year of service on August 1, 2026.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

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

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

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

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

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

Funding Policy – Employer and member contribution rates are established by the State Teachers Retirement Board and limited by Chapter 3307 of the Ohio Revised Code. The statutory maximum employee contribution rate was increased one percent July 1, 2014, and will be increased one percent each year until it reaches 14 percent on July 1, 2016. For the fiscal year ended June 30, 2015, plan members were required to contribute 12 percent of their annual covered salary. The Educational Service Center was required to contribute 14 percent; the entire 14 percent was the portion used to fund pension obligations. The fiscal year 2015 contribution rates were equal to the statutory maximum rates.

The Educational Service Center's contractually required contribution to STRS Ohio was \$204,513 for fiscal year 2015.

Net Pension Liabilities

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Educational Service Center's proportion of the net pension liability was based on the Educational Service Center's share of contributions to the pension plan relative to the projected contributions of all participating entities. Following is information related to the proportionate share:

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Net Pension Liabilities(continued)

	<u>SERS</u>	<u>STRS</u>	<u>Total</u>
Proportionate Share of the Net Pension Liability	\$821,138	\$2,938,585	\$3,759,723
Proportion of the Net Pension Liability	0.016225%	0.01208128%	

Actuarial Assumptions - SERS

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

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

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

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of June 30, 2014, are presented below:

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	4.00 percent to 22 percent
COLA or Ad Hoc COLA	3 percent
Investment Rate of Return	7.75 percent net of investments expense, including inflation
Actuarial Cost Method	Entry Age Normal

For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table set back one year for both men and women. Special mortality tables are used for the period after disability retirement.

The most recent experience study was completed June 30, 2010.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2015*

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - SERS (continued)

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

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash	1.00 %	0.00 %
US Stocks	22.50	5.00
Non-US Stocks	22.50	5.50
Fixed Income	19.00	1.50
Private Equity	10.00	10.00
Real Assets	10.00	5.00
Multi-Asset Strategies	15.00	7.50
Total	100.00 %	

Discount Rate The total pension liability was calculated using the discount rate of 7.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the long-term assumed investment rate of return (7.75 percent). Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Educational Service Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 7.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent), or one percentage point higher (8.75 percent) than the current rate.

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The Center's proportionate share of the net pension liability	\$1,171,520	\$821,138	\$526,437

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions - STRS

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Mortality Table (Projection 2022—Scale AA) for Males and Females. Males' ages are set-back two years through age 89 and no set-back for age 90 and above. Females younger than age 80 are set back four years, one year set back from age 80 through 89 and not set back from age 90 and above.

Actuarial assumptions used in the June 30, 2014, valuation are based on the results of an actuarial experience study, effective July 1, 2012.

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

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

Discount Rate The discount rate used to measure the total pension liability was 7.75 percent as of June 30, 2014. The projection of cash flows used to determine the discount rate assumes member and employer contributions will be made at the statutory contribution rates in accordance with rate increases described above. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, STRS' fiduciary net position was projected to be available to make all projected future benefit payments to current plan members as of June 30, 2014. Therefore, the long-term expected rate of return on pension plan investments of 7.75 percent was applied to all periods of projected benefit payment to determine the total pension liability as of June 30, 2014.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 6 - DEFINED BENEFIT PENSION PLANS (continued)

Actuarial Assumptions – STRS (continued)

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The Center's proportionate share of the net pension liability	\$4,206,905	\$2,938,585	\$1,866,013

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System of Ohio have an option to choose Social Security or the School Employees Retirement System. As of June 30, 2015, none of the Educational Service Center's members of the Board of Education has elected Social Security. The contribution rate is 6.2 percent of wages.

NOTE 7 - POSTEMPLOYMENT BENEFITS

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, 0 percent, 1 percent, and 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2015, 2014, and 2013, respectively. The 14 percent employer contribution rate is the maximum rate established under Ohio law. For the Educational Service Center, these amounts equaled \$0, \$10,419, and \$10,902, for fiscal years 2015, 2014, and 2013, respectively, which equaled the required allocations for those years.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 7 - 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 a postemployment benefit plan.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund to be used to subsidize the cost of health care coverage. At June 30, 2015, 2014, and 2013, the health care allocations were 0.82 percent, 0.14 percent, and 0.16 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated if less than a full year of service credit was earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. For fiscal year 2015, the minimum compensation level was established at \$20,450. The surcharge, added to the unallocated portion of the 14% employer contribution rate is the total amount assigned to the Health Care Fund. For the School District, the amounts assigned to health care, including the surcharge, during the 2015, 2014, and 2013 fiscal years equaled \$13,399, \$7,603, and \$5,964, respectively; which is equal to the required amounts for those years.

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

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

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.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 8 - EMPLOYEE BENEFITS (continued)

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 \$1,637.27, for family coverage and seventy-five percent of monthly premiums, or \$662.86 for individual coverage for Plan 1. The Educational Service Center pays seventy-five percent of monthly premiums, or \$1,341.82, for family coverage and seventy-five percent of monthly premiums, or \$543.25 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 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association Council of Governments - The Educational Service Center is a participant in the South Central Ohio Computer Association Council of Governments (SCOCA COG) which is an information technology center. SCOCA COG is a council of governments providing information technology services to 59 public education entities, 60 non-public education entities, and public libraries from 22 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 SCOCA COG consists of two representatives from each of the eleven participating counties, two school treasurers, and a representative for the fiscal agent. SCOCA COG 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 \$39,264 for services provided during fiscal year 2015. Financial information for SCOCA COG can be obtained from their fiscal office located at Pike County Career Technology Center, P.O. Box 596, 175 Beaver Creek, Piketon, Ohio 45661.

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 2015.

NOTE 10 - INSURANCE PURCHASING POOLS

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

The Educational Service Center participates in the Sheakley Workers' Comp and Safety Group Retrospective Rating Plan (GRP), an insurance purchasing pool. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 10 - INSURANCE PURCHASING POOLS (continued)

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

NOTE 11 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2015, if applicable, cannot be determined at this time.

B. Litigation

The Educational Service Center is currently party to legal proceedings. However, no liability has been accrued since the ultimate disposition of these claims and legal proceedings has yet to be determined and the amount of liability, if any, is not measurable.

NOTE 12 – FUND BALANCES

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

<u>Fund Balances</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assigned to			
Other Purposes	\$52,042	\$0	\$52,042
Unassigned	1,709,947	(11,638)	1,698,309
Total Fund Balances	<u>\$1,761,989</u>	<u>(\$11,638)</u>	<u>\$1,750,351</u>

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 13 – NEW ACCOUNTING PRINCIPLES/RESTATEMENT OF BALANCES

For 2015, the Educational Service Center implemented Governmental Accounting Standards Board (GASB) Statement No. 68, “Accounting and Financial Reporting for Pensions-an Amendment of GASB Statement No.27.”

Statement No. 68 requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The total pension liability will be computed on a different basis than the current actuarial accrued liability and it is deemed likely that this pronouncement would have a material impact on governments who prepare their financial statements in accordance with accounting principles generally accepted in the United States of America. Since the Educational Service Center currently reports on the cash basis of accounting, there is not any effect on the financial statements; however, there are additional disclosure requirements which are included in Note 7.

For fiscal year 2015, the Educational Service Center has revised its financial presentation comparable to the provisions of GASB 34 for financial reporting but on a cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America. The Educational Service Center had previously reported on a GAAP basis of accounting which was in accordance with accounting principles generally accepted in the United States of America. The implementation of cash basis financial statements resulted in following restatements on net assets and fund balances as previously stated:

<u>Fund Balances</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances, June 30, 2014	\$992,530	\$14,635	\$1,007,165
Cash Basis Restatement	<u>55,172</u>	<u>15,371</u>	<u>70,543</u>
Restated Fund Balances June 30, 2014	<u>1,047,702</u>	<u>30,006</u>	<u>1,077,708</u>
Net Position June 30, 2014			\$1,210,817
Modified Adjustments			70,543
Unavailable Revenue			(285,112)
Capital Assets			(40,370)
Compensated Absences			<u>121,830</u>
Governmental Activities Net Position Restated June 30, 2014			<u>\$1,077,708</u>

NOTE 14 – SUBSEQUENT EVENTS

Metropolitan Educational Technology Association (META) Solutions

META Solutions is a computer consortium that was the result of a merger between Tri-Rivers Educational Computer Association (TRECA) and the Metropolitan Educational Council (MEC) in February 2015. Metropolitan Dayton Educational Cooperative Association (MDECA), and Southeastern Ohio Voluntary Education Cooperative (SEOVEC) also merged with META Solutions on January 4, 2016. META Solutions develops, implements and supports the technology and instructional needs of schools and provides instructional, core, technology and purchasing services for its member districts. The Board of Directors consists of eight members from member districts. The South Central Ohio Computer Association Council of Governments was in the process of merging with META, however, as of the date of this financial report, the merger had not fully been completed.

Lawrence County Academy

Effective December 1, 2015, the ESC was no longer the fiscal agent for the Lawrence County Academy. Rock Hill Local School District became the fiscal agent in December 2015. A settlement agreement was signed stating that the Lawrence County Academy will close as of June 30, 2017. Assets of any kind shall be transferred to the Educational Service Center.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2015

NOTE 15 – COMPLIANCE

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

NOTE 16 – ACCOUNTABILITY

The Alternative School Grant Fund had a deficit balance at June 30, 2015 in the amount of \$11,638. This deficit was created as this fund was awaiting receipts of requested granted funds.

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, 2015

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
Receipts				
Intergovernmental	\$ 538,559	\$ 263,642	\$ 263,642	\$ -
Interest	1,803	1,462	1,636	174
Rent	1,140	1,900	1,900	-
Charges for Services	2,034,105	1,786,694	2,016,343	229,649
Contract Services	-	1,750,519	1,750,519	-
Miscellaneous	521,765	311,603	9,338	(302,265)
<i>Total Receipts</i>	3,097,372	4,115,820	4,043,378	(72,442)
Disbursements				
Current:				
Instruction:				
Regular	12,810	4,511	31,178	(26,667)
Special	601,923	1,152,923	1,144,272	8,651
Student Intervention Services	8,674	17,398	17,398	-
Support Services:				
Pupils	353,917	568,771	568,771	-
Instructional Staff	526,567	477,212	477,211	1
Board of Education	48,032	47,042	44,610	2,432
Administration	366,065	445,239	444,278	961
Fiscal	290,449	374,021	374,021	-
Operation and Maintenance of Plant	47,009	46,386	46,386	-
Central	576,030	992,124	593,164	398,960
Capital Outlay	-	-	30,970	(30,970)
<i>Total Disbursements</i>	2,831,476	4,125,627	3,772,259	353,368
<i>Excess of Receipts Over (Under) Disbursements</i>	265,896	(9,807)	271,119	280,926
Other Financing Sources				
Refund of Prior Year Expenditures	21,077	20,949	20,949	-
<i>Total Other Financing Sources</i>	21,077	20,949	20,949	-
Special Item				
Surplus Funds	-	-	370,177	370,177
<i>Net Change in Fund Balance</i>	286,973	11,142	662,245	651,103
<i>Fund Balance at Beginning of Year - As Restated, See Note 13</i>	1,044,947	1,044,947	1,044,947	-
<i>Prior Year Encumbrances Appropriated</i>	2,755	2,755	2,755	-
<i>Fund Balance at End of Year</i>	<u>\$ 1,334,675</u>	<u>\$ 1,058,844</u>	<u>\$ 1,709,947</u>	<u>\$ 651,103</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, 2015

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

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

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

<u>Net Changes in Fund Balances</u>	
	<u>General</u>
Cash Basis	\$ 714,287
Adjustments:	
Encumbrances	<u>(52,042)</u>
Budget Basis	<u><u>\$ 662,245</u></u>

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2016 AND 2015**

<i>Finding Number</i>	2016-001
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Noncompliance and Internal Control Deficiency

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

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

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

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

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

Inaccurate Reconciliations and Financial Statement Errors

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 were not accurate:

- The Center acted as the fiscal agent for the Lawrence County Schools Council of Governments (the COG). The COG had two separate bank accounts; however, the Center tracked the activity of the COG in two special cost centers (SCCs 9011 and 9012) within its General Fund in the SCOCA accounting system, and made payments for the COG from the special cost centers using checks issued from the Center's bank account. Each month, the Center's Treasurer calculated the total of all checks written for the COG and then wire transferred the total amount from the COG's bank account into the Center's bank account. At June 30, 2016, there were \$43,359 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 wire transfers were made from the COG's bank account to the Center's bank account on June 22, 2017. The Center reported the COG's activity in an Agency Fund on the Center's financial statements.

**FINDING NUMBER 2016-001
(Continued)**

- Beginning in 2014, the Center's Treasurer also acted as the fiscal agent for the Lawrence County Academy (the Academy) until December 1, 2015. 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 appropriately removed the Academy's activity from the Center's financial statements. The reconciliations performed by the Center each month until December 2015 included the bank account for the Academy, 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:

- November 2014 Charges for Services receipt in the amount of \$482,692 was not recorded in the accounting system.
- December 2014 memo disbursement in the amount of \$126,522 did not represent an actual disbursement and resulted in an overstatement of expenditures in the accounting system.
- January 2015 memo disbursement in the amount of \$60,690 did not represent an actual disbursement and resulted in an overstatement of expenditures in the accounting system.
- Throughout 2015, memo checks for Board pick-up of employees' share of retirement was understated in the accounting system by a total of \$26,667.
- Deposit in transit in the amount of \$1,153 from April 2014 was not actually a deposit in transit but represented a receipt that was posted twice in the accounting system but was not voided.
- June 2016 interest revenue in the amount of \$121 was not posted in the accounting system.
- June 2016 Charges for Services receipt was overstated in the accounting system by \$10,000.
- The Center's general bank account owed the Center's payroll bank account a total of \$24,902 at June 30, 2015 and a total of \$42,364 because there was no wire 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 \$642,084 understatement of the Center's accounting system fund balances at June 30, 2015 and a \$9,879 overstatement of the Center's accounting system fund balances at June 30, 2016. The adjustments identified above were incorporated into the financial statements during the compilation. The Center has adjusted the SCOCA accounting system for these errors.

Untimely Monthly and Fiscal Year End Close-outs

In addition to the above items, we noted that the monthly and fiscal year end close-outs of the Academy's SCOCA accounting system were not performed timely as follows:

**FINDING NUMBER 2016-001
(Continued)**

- July 2014 SCOCA accounting system was not closed out until January 21, 2015;
- August 2014 SCOCA accounting system was not closed out until January 24, 2015;
- September 2014 SCOCA accounting system was not closed out until January 26, 2015;
- October 2014 SCOCA accounting system was not closed out until January 29, 2015;
- November 2014 SCOCA accounting system was not closed out until January 30, 2015;
- December 2014 SCOCA accounting system was not closed out until May 1, 2015;
- January 2015 SCOCA accounting system was not closed out until August 14, 2015;
- The SCOCA accounting system for the months of February, March and April 2015 were not closed out until August 26, 2015;
- May 2015 SCOCA accounting system was not closed out until August 27, 2015;
- June 2015 SCOCA accounting system was not closed out until September 12, 2015;
- July 2015 SCOCA accounting system was not closed out until September 15, 2015;
- August 2015 SCOCA accounting system was not closed out until January 19, 2016;
- The SCOCA accounting system for the months of September and October 2015 were not closed out until January 29, 2016; and
- The SCOCA accounting system for the months of November and December 2015 were not closed out until February 1, 2016.

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 of these types of errors, the reconciliations and financial information provided to the Board of Education during the period under audit were not accurate.

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.

<i>Finding Number</i>	2016-002
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Noncompliance and Internal Control Deficiency

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.

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. The Center's Treasurer then resigned as the fiscal agent effective December 1, 2015. The Rock Hill Local School District's Treasurer replaced the Center's Treasurer as the Academy's fiscal agent.

**FINDING NUMBER 2016-002
 (Continued)**

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 Academy 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. The Center's Treasurer attempted to net the erroneous 2014 revenue postings against fiscal year 2015 activity and failed to post a charges for services receipt, in the amount of \$482,692, in the Center's General Fund special cost center.

This resulted in an inaccurate cash balance in the Center's General Fund. Therefore, the Center's Treasurer was unable to determine how much the Academy owed the Center.

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.

<i>Finding Number</i>	2016-003
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Internal Control Deficiency

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;

FINDING NUMBER 2016-003
(Continued)

- 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 paid 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:

- None of the fiscal year 2015 requisitions for seven 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."
- During fiscal year 2015, the Center had four employees who worked at the special education cooperative, and one special education cooperative employee whose fiscal year 2014 contract ended in fiscal year 2015. The special education cooperative was not related to the Academy; however, the special education salaries and benefits totaling \$196,965 were charged to the Center's General Fund SCC 9913 and 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. 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, through her resignation effective December 1, 2015. In addition to billing the Academy for the \$500 per month compensation, the Center also erroneously billed the Academy for some of Ms. Lawless' fringe benefits (e.g. SERS pick up, health insurance, life insurance, etc.) in the amount of \$4,402 for fiscal year 2015 and \$1,229 for fiscal year 2016. Also, in August 2015 the Academy made a duplicate payment of \$31,135 to Center for administrative services performed by the Center for the Academy's NECCO students for November and December 2014; however, the Academy had already been billed and paid for these services. Of the total purchased services that the Center billed the Academy for, \$233,731 was deemed to have been unallowable expenditures for the Academy. See the audit report of the Lawrence County Academy where this matter was reported as a Finding for Recovery in Finding Number 2016-005.

FINDING NUMBER 2016-003
(Continued)

- The Center's Treasurer posted all of the Academy payments to the Center to the Academy's SCOCA accounting system as memo checks and wire transferred 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 related wire transfers from the Academy's bank account to the Center's bank account did not occur until January 30, 2015. Four memo checks from the Academy to the Center were posted to the Academy's SCOCA accounting system on July 31, 2014; however, the related wire transfers for three memo checks were not made until November 26, 2014, and the fourth related wire was not made until January 30, 2015.
- Three overdrafts of the Center's payroll bank account, totaling \$1,962, occurred in April 2015. In an attempt to correct this, the Center's Treasurer posted a memo check from the Academy to the Center for \$112,732, for payment for services the Academy purchased from the Center, but only wire transferred \$110,770 from the Academy to the Center since the Center already had the \$1,962 in their payroll bank account. [See Finding Number 2016-011.]
- The Center's Treasurer did not post any payments from the Academy to the Center from August 1, 2014 until April 29, 2015, until the memo check for \$112,732 was issued to the Center and posted to the Academy's SCOCA accounting system. The only documentation for the transaction retained by the Center's Treasurer was an invoice showing a total amount owed of \$110,770. During the audit, the Center's Treasurer prepared an activity report for November 2014 which showed that \$110,770 owed by the Academy to the Center was comprised of \$27,598 federal monies owed to the Center, \$38,234 for Title I FY14, \$60,689 for foundation FY14, and less overdrafts of \$11,715 and \$4,036.
- We identified three memo checks issued by the Academy to the Center (number 15002 for \$38,234; number 15003 for \$363; and number 15004 for \$27,235) that were posted to the Academy's SCOCA accounting system on June 30, 2014, and memo check number 15007, issued to the Center in the amount of \$60,689 and posted on July 31, 2014. The wire transfers related to these memo checks did not occur until January 30, 2015.
- The Center's Treasurer posted a memo check, number 15010, to the Academy's SCOCA accounting system in fiscal year 2015. The memo check and related wire transfers were issued to the Center on May 29, 2015 in the amount of \$1,063,366; however, the memo check and related wire transfer were not supported by any documentation. The amount appeared to be the balance remaining in the Center's SCOCA accounting system special cost center used to track services the Center was providing to the Academy.

In fiscal year 2016, prior to the Center's Treasurer resigning effective December 1, 2015, only two memo checks were posted to the Academy's SCOCA accounting system. Memo check number 15014 was issued to the Center on July 30, 2015 in the amount of \$400,165 to pay the Academy's June 30, 2015 fund balance over to the Center. The Center's Treasurer wire transferred \$390,165 from the Academy's bank account to the Center's bank account on August 31, 2015, which left a difference of \$10,000 at the Academy which was the amount that was approved by the Academy Board to remain at the Academy as its carryover balance for fiscal year 2015. The other memo check, number 15017, was issued to the Center on August 13, 2015, in the amount of \$31,135, for administrative services from November and December 2014 for which the Academy had previously paid during fiscal year 2015. See the audit report of the Lawrence County Academy where this matter was reported as a Finding for Recovery in Finding Number 2016-005.

**FINDING NUMBER 2016-003
(Continued)**

- There was no segregation of duties related to the Academy's purchased services expenditures. The Center's Treasurer 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 documentation of the purchased services and related wire transfers, it was difficult for the Academy to ensure that the memo expenditures were coded to the proper expenditure line items or whether expenditures were 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.

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 charges for services receipt and post it to the Center's General Fund special costs centers designated for the Academy (SCCs 9913 and 9914).

<i>Finding Number</i>	2016-004
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Noncompliance and Internal Control Deficiency

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 5134 was deposited with the designated depository and posted to the SCOCA accounting system on December 29, 2014, in amount of \$16,622; however, the supporting documentation provided with the receipt included the payee's envelope post marked for December 10, 2014.
- Receipt number 5143 was deposited with the designated depository and posted to the SCOCA accounting system on January 23, 2015, in the amount of \$5,420; however, the supporting documentation provided with the receipt included the payee's envelope post marked for January 14, 2015.

**FINDING NUMBER 2016-004
(Continued)**

Furthermore, in fiscal year 2015 there were charges for services receipts totaling \$84,056 related to alternative school contracts for which there were no contracts or invoices included as supporting documentation of the receipts. The only documentation provided by the Center's Treasurer to support the receipts were copies of the checks from the payees. As a result, we were unable to recalculate the receipts to determine if proper rates were billed.

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. We further recommend that supporting documentation, including copies of contracts, invoices, etc., be maintained for all receipts.

<i>Finding Number</i>	2016-005
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Internal Control Deficiency

Sequential Order of Check Numbers

In reviewing the monthly 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 #022331 was dated July 1, 2014 with the next check issued in fiscal year 2015 being check #022367 was dated July 3, 2014
- Check #022673 was dated December 3, 2014 with check #022674, dated July 30, 2014, then check #022675 was dated December 11, 2014
- Check #022772 was dated January 14, 2015 with check #s 022773 through 022787 all dated in July and August 2014, then check #022788 was dated January 23, 2015
- Check #022796 was dated January 23, 2015 with check #s 022797 through 022810 all dated in September 2014, then check #022811 was dated January 30, 2015
- Check #022812 was dated January 30, 2015 with check #s 022813 through 022826 all dated in October 2014, then check #022827 was dated January 29, 2015
- Check #022841 was dated January 30, 2015 with check #s 002842 through 022869 all dated in November and December 2014, then check #022870 was dated February 2, 2015

The check registers also skipped the sequence of numbers between check #022387 and #022403 in July 2014. There was also a gap in the check sequence between check #022454 through #022468 in August 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.

**FINDING NUMBER 2016-005
(Continued)**

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.

<i>Finding Number</i>	2016-006
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Noncompliance and Internal Control Deficiency

The Center's minute record is the official record of Board meetings and should provide a complete and accurate description of Board proceedings. Board members should acknowledge their approval of the minute record through their signature.

We noted the following conditions related to the Center's minute records:

- The December 1, 2015 and December 28, 2015 meetings did not state a purpose for holding executive sessions. (Ohio Rev. Code §121.22(C) requires that the minutes need only reflect the general subject matter of discussions in executive session.)
- The minute record was not signed for meetings held during the months of December 2014, and January through December 2015.
- While the financial information was reviewed by the Board based on Board packets provided, there was no indication that official financial information was approved. Furthermore, there was no evidence that financial reports were provided to the Board for the October 2015, December 2015, and January 2016 meetings.
- The Board packet for the January 12, 2015 meeting included the SCOCA accounting system report "CHEKPY" printout for June 1, 2014 through June 30, 2014, with an accounting system date of August 26, 2014 (which was the date the SCOCA accounting system was closed out for June 2014), and contained a post-it note stating 'July 31, 2014 No Ronnie'. This printout was signed by four of the five Board members, excluding the one Board member mentioned on the post-it note. The date of July 31, 2014 was written beside each of the Board member's signatures. This indicates that the Board members were not presented with the June 2014 CHEKPY report until August 2014 (after the June 2014 close-out date) and were asked to backdate their signatures/approval to July 31, 2014 to make it appear that the June 2014 report was provided and approved in July 2014.
- A review of the Board packet for the February 27, 2015 meeting showed that the Board approved/signed CHEKPY SCCOCA accounting system reports for each of the following months: July 2014, August 2014, September 2014, October 2014, November 2014 and December 2014. This indicates an untimely review of financial information by the Board.
- Board packets for the months of January, February and March 2015 contained financial reports prepared by the Center's Treasurer that were not accurate. Each monthly financial report contained a signature page showing all Board members' signatures dated April 27, 2015. Each report was set up in the same format as the SCOCA accounting system "CHEKPY" report and indicated in the header of each report that the check dates were between the first day and last day of each month and contained all checks selected. The upper left corner of each report provided to the Board was dated for the last date of each month presented (i.e. January 31, 2015, February 28, 2015 and March 31, 2015). Also, each report contained total checks paid out for the month. However, in reviewing the Center's SCOCA accounting system "CHEKPY" reports for those months containing all checks selected, we noted the following:

**FINDING NUMBER 2016-006
 (Continued)**

- The month of January 2015 was not closed out in the SCOCA accounting system until August 14, 2015 which was the date included on the January 2015 CHEKPY system report. The total warrant check amount included on the CHEKPY report was \$102,038; however, the Center also issued memo checks and payroll checks in January 2015, and the grand total of all checks issued in January 2015 was \$1,531,537.
- The month of February 2015 was not closed out in the SCOCA accounting system until August 20, 2015 which was the date included on the February 2015 CHEKPY system report. The total warrant checks included on the CHEKPY report was \$77,012; however, the Center also issued memo checks and payroll checks in February 2015, and the grand total of all checks issued in February 2015 was \$1,335,316.
- The month of March 2015 was not closed out in the SCOCA accounting system until August 24, 2015 which was the date included on the March 2015 CHEKPY system report. The total warrant checks included on the CHEKPY report was \$127,651; however, the Center also issued memo checks and payroll checks in March 2015 and the grand total of all checks issued in March 2015 was \$1,502,993.

This resulted in an inability to determine whether the minute record was accurate and complete and whether there was proper, timely monitoring by the Center's Board.

We recommend the minute record be signed by the Board President and the Center's Treasurer. We recommend the minute record specifically state the purpose for all executive sessions. We further recommend financial reports be presented, in a timely manner, to the Board for monitoring purposes, and the minute record document what items are being reviewed and approved. In order to effectively monitor the financial activity and condition of the Center, we recommend the Center's Treasurer provide accounting system-generated reports to the Board on a monthly basis.

<i>Finding Number</i>	2016-007
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Noncompliance

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

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

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

We identified the following noncompliance:

**FINDING NUMBER 2016-007
 (Continued)**

- The Center prepared financial statements that, although formatted similar to financial statements prescribed by Governmental Accounting Standards Board Statement No. 34, report on the basis of cash receipts and cash disbursements, rather than GAAP. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while material, cannot be determined at this time;
- Because the Center filed 2015 and 2016 financial statements prepared in accordance with the modified cash basis of accounting, their financial statements should have been filed within sixty days after the close of the fiscal year end; however, the Center did not file their modified cash basis financial statements until February 7, 2018 for both 2015 and 2016 which was after the filing extension due dates of July 29, 2016 and August 29, 2016, respectively.

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

<i>Finding Number</i>	2016-008
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Noncompliance

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

The Center's Superintendent attended the public records training on November 10, 2014 but was not listed as a designee to any of the Board members. The last public records training in which a designee attended on behalf of the Board and Treasurer was on November 8, 2010. This could lead to the Board and management not being aware of the records they are required to provide to the public.

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

<i>Finding Number</i>	2016-009
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Noncompliance

Board Policy 3231 'Outside Activities of Staff' states, in part, that professional staff members should avoid situations in which their personal interests, activities, and associations conflict with interests of the Center. The policy states that staff members should not use school property or school time to solicit or accept customers for private enterprise. Furthermore, the policy states that staff members may not engage in business transactions on behalf of private enterprises in which the staff member may profit by virtue of the employee's official position or authority.

The Center's former Treasurer was also a consultant for a business named Thirty One. As a consultant, she earned a 25% commission on all sales. Between August and December 2015, the Center's former Treasurer was issued four checks from the Center to herself for purchase from Thirty One. The checks were payments for nine rolling totes and 2 insulators at total cost of \$1,033 (which included sales tax and shipping/handling charges). The totes included free personalization of 'LCESC'. The purchase of these items was not formally approved by the Board in the minutes, and there was no authorization or approval indicated on the requisitions. There was no evidence that purchase orders were completed prior to the checks being written since all checks were issued on demand due to the SCOCA accounting system not being closed out timely for each month. [See Finding Number 2016-001.]

The former Treasurer's commission earned on the sales was \$224. On December 15, 2015, the former Treasurer issued a personal check to the Center, dated November 30, 2015, in the amount of \$224 as a '25% discount on totes'. The check was posted to the SCOCA accounting system as a reduction of expenditure to the General Fund line item where the original payments were made, via memo check number 900000, on December 17, 2015.

These actions by the Treasurer resulted in a violation of the Board policy and in the Center paying sales taxes on all Thirty One items purchased.

We recommend someone other than the Center's Treasurer, such as the Superintendent, sign requisitions and purchase order to indicate approval of the obligations prior to the disbursement being made.

<i>Finding Number</i>	2016-010
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Internal Control Deficiency

The Center, as the sponsor of the Lawrence County Academy (the Academy), entered into a Mutual Services Agreement with Haugland Learning Center on August 11, 2014 for the 2014-2015 academic year. Haugland Learning Center served students eligible for an autism scholarship in Lawrence County, Ohio and received payments directly from the Ohio Department of Education. These students attended classes at the Haugland Learning Center's NECCO location in Lawrence County. The Academy also operated and had facilities at NECCO. As part of the agreement, Haugland Learning Center's Ohio resident students at the NECCO facility enrolled and become students in the Academy at the NECCO location. The agreement also provided that the Academy subcontracted the educational component of the Haugland Learning Center's students to Haugland Learning Center.

We identified the following deficiencies in the Mutual Services Agreement:

**FINDING NUMBER 2016-010
 (Continued)**

- The only provisions of the Mutual Services Agreement that addressed fiscal matters related to the Academy: Article III provided that the Academy received \$6,000 per student in state funding from the Ohio Department of Education and the remainder of the state funding subsidy was paid to the Haugland Learning Center as payment for educating the autism students at NECCO; and Article V, which provided that the Academy would not pay the 3% per year fee that could be charged pursuant to the community school sponsorship contract between the Lawrence County Educational Service Center as Sponsor and the Board of Directors of the Lawrence County Academy.
- The Center also functioned as the fiscal agent for the Academy. The contract between the Center and Haugland Learning Center did not clearly establish the daily rates to be charged to the Academy for the autistic and mentally disabled students being educated by Haugland Learning Center.
- The Center provided administrative services for the Haugland Learning Center students at NECCO; however, the contract did not clearly document the daily rate per student charged for administrative services
- The Haugland Learning Center did not invoice the Center for services provided. Instead, the Center's Superintendent and the Academy's Director calculated the daily per student rate for Haugland Learning Center and the Center's administrative rate based on the Category 5 and Category 6 rates per student along with the regular rate per student included in the Ohio Department of Education's fiscal year 2015 Community School Report for November 2014. The Center's Superintendent then obtained the monthly NECCO attendance information and performed a manual calculation of the amount owed to Haugland Learning Center and the amount owed for administrative services to the Center. The Center's Treasurer used those calculations to support the check issued to Haugland Learning Center. The Center's Treasurer then billed the Academy for the amount that the Center paid to Haugland Learning Center on behalf of the Academy and for administrative services provided by the Center.

Lack of clearly defined rates in service contracts could lead to inaccurate charges and disputes between the parties regarding reasonable charges.

We recommend contracts entered into by the Center on behalf of the Academy clearly define the services to be provided by all parties. We further recommend the Academy only enter into contracts that contain a detailed breakdown of the daily rates to be charged per student based on the categories of student.

<i>Finding Number</i>	2016-011
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Internal Control Deficiency

The Center's and Academy's bank accounts were all with the same bank. When the Academy's accounts were initially opened with the bank, the Center's taxpayer identification number (TIN) was used for the Academy's accounts instead of the Academy's TIN. As a result, all of the Center's bank accounts were tied to the Academy's bank accounts, and, according to the Center's payroll bank statements, overdraft protection was provided by the Academy's bank account. Therefore, each time the Center's payroll bank account was overdrawn, the bank transferred the required monies from the Academy's bank account to the Center's payroll bank account to cover the overdraft.

The following overdraft transfers occurred when the bank transferred monies from the Academy's bank account to the Center's payroll bank account to cover the overdrafts within the Center's payroll bank account:

**FINDING NUMBER 2016-011
(Continued)**

- \$124 on August 21, 2014
- \$11,591 on August 26, 2014
- \$468 on November 4, 2014
- \$190 on November 5, 2014
- \$3,185 on November 6, 2014
- \$192 on November 12, 2014
- \$50 on April 9, 2015
- \$526 on April 10, 2015
- \$1,386 on April 30, 2015
- \$3,941 on May 4, 2015
- \$1,582 on May 5, 2015
- \$864 on May 6, 2015

Rather than correct the erroneous transfers from the Academy's bank account to the Center's bank account, the Center's Treasurer first issued memo check number 15009 from the Academy to the Center on April 29, 2015, in the amount of \$112,733, of which only \$110,771 was wire transferred from the Academy's bank account to the Center's bank account. The difference of \$1,962 was not wire transferred since it was already transferred from the Academy's bank account to the Center's bank account by the bank to cover the three overdraft occurrences in April 2015. The Center posted a charges for services receipt in the amount of \$112,733 to offset what the Academy owed the Center for purchased services.

The bank also made transfers in nine other instances totaling \$22,137 from the Academy's bank account to the Center's payroll bank account for overdrafts in the Center's payroll bank account. Again, rather than correct the erroneous transfers from the Academy's bank account to the Center's bank account, the Center's Treasurer recorded the cash transfers by issuing memo check number 15011 from the Academy to the Center in the amount of \$22,137, on May 29, 2015, and recorded the transaction as payment by the Academy for amounts due for services provided by the Center. The receipt was used by the Center to offset purchased services which the Academy had yet to be billed for at that time.

As a result of the overdrafts, the Center's payroll bank account incurred overdraft charges of \$180 in fiscal year 2015.

We recommend the Academy's fiscal agent contact the bank to update the Academy's account to include the taxpayer identification number for the Academy. We further recommend the Center's Treasurer ensure that adequate monies are wire transferred from the Center's general bank account to the Center's payroll account to cover all payroll charges.

<i>Finding Number</i>	2016-012
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Finding for Recovery

The Center's Treasurer is responsible for withholding and remitting to the Department of Treasury, Internal Revenue Service (IRS), the required income taxes, contributions, and W-2 information from the Center's employee earnings. For the tax period ending December 31, 2014, the former Treasurer failed to file forms W-2, and the amounts shown on the information provided by the Center to the IRS differed from the amounts shown on the actual tax returns. As a result, the Center incurred penalties and interest, which were paid by the Center, as follows:

- In 2017, the Center paid a penalties assessment of \$8,746 for failure to file forms W-2 with the Internal Revenue Service;
- In 2017, the Center paid \$10,845 for increase in Medicare wages, \$1,084 for failure to make a proper tax deposit penalty and \$1,045 for interest charges because the amounts shown on the information provided by the Center to the IRS differed from the amounts shown on the actual tax returns

The penalties and interest incurred by the Center served no proper public purpose and could have been avoided had the W-2s and accurate information on returns been remitted as required by law.

State ex rel. McClure v. Hagerman, 155 Ohio St. 320 (1951), provides that expenditures made by a governmental unit should serve a public purpose. Typically the determination of what constitutes a "proper public purpose" rests with the judgment of the governmental entity, unless such determination is arbitrary or unreasonable. Even if a purchase is reasonable, Ohio Attorney General Opinion 82-006 indicates that it must be memorialized by a duly enacted ordinance or resolution and may have a prospective effect only. Auditor of State Bulletin 2003-005 Expenditure of Public Funds/Proper Public Purpose states that the Auditor of State's Office will only question expenditures where the legislative determination of a public purpose is manifestly arbitrary and incorrect.

The law requires that employers withhold taxes from employees' paychecks and remit those taxes to the government. The United States Internal Revenue Code, for example, requires employers to deduct from wages paid to employees the employees' share of FICA taxes and individual income taxes. See 26 U.S.C. 3102(a) and 3402(a). Those withholdings are considered to be held in "a special fund in trust for the United States." 26 U.S.C. 7501(a). The employer is liable for the withheld portion of the employee's wages and must pay over the full amount to the government each quarter. See United States v. Farr, 536 F.3d 1174, 1176 (10th Circ. 2008). In addition, under Ohio law, employers are required to withhold state income taxes from employees' wages and transmit the funds to the state, according to Ohio Rev. Code § 5747.06. Under Ohio Rev. Code § 5747.07(E)(2), each employer required to withhold any tax is liable for the payment of the amount required to be withheld and the amount shall be deemed to be a special fund in trust for the general revenue fund. The same rule applies with respect to municipal income taxes in Ohio. See Ohio Rev. Code § 718.03.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code §117.28, a Finding for Recovery for public monies illegally expended is hereby issued against former Treasurer Teresa Lawless and her bonding company, Travelers Casualty and Surety Company of America, will be jointly and severally liable in the amount of \$21,720 (\$8,746 + \$10,845 + \$1,084 + \$1,045) and in favor of the Lawrence County Educational Service Center General Fund.

**FINDING NUMBER 2016-012
 (Continued)**

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is made is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.*, 120 Ohio St. 47 (1929); 1980 Op. Atty. Gen. No. 80-074; Ohio Rev. Code § 9.39; *State ex rel. Village of Linndale v. Masten*, 18 Ohio St. 3d 228 (1985). Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property. See 1980 Op. Atty. Gen. No. 80-074.

The Center should file all required forms and accurate information on all obligations. Failing to file all required forms and accurate information, could result in disbursements which are not for a public purpose.

<i>Finding Number</i>	2016-013
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Finding for Recovery

On January 30, 2014, the Board approved to amend the contract (for the period of August 1, 2013 through July 31, 2018) of the Center's former Treasurer, Teresa Lawless, which allowed her to become eligible for a 5% performance incentive based on the same criteria as the performance incentive received by the former Superintendent: "the Board agrees to compensate the superintendent a yearly payment equal to five percent of the unencumbered balance in the general fund(s), the baseline will be the fiscal year 2010 balance, as a performance incentive to be paid in the second pay period in July of each year beginning in 2013 through regular payroll."

Although the performance incentive was based on unencumbered fund balance, the contract defined neither the term "unencumbered" nor which special cost centers (SCC) within the general fund were to be used to calculate the performance incentive. The initial performance incentive was tested during the Special Audit performed by the Public Integrity Assurance Team of the Auditor of State. See the Special Audit report released by the Auditor of State for additional information on this matter. During the fiscal year ended June 30, 2014, the Center established the precedent of basing the performance incentive on the unencumbered balance of the General fund SCC 0000 as presented on the modified accrual basis of accounting. This precedent was established by basing the performance incentive received in the fiscal year ended June 30, 2014 on the unencumbered modified accrual balance of the General fund special cost center SCC 0000 at June 30, 2013.

On September 30, 2014, Ms. Lawless received a \$40,000 advance on the performance incentive for fiscal year 2014. On February 27, 2015, Ms. Lawless received an additional \$31,880, for a total performance incentive of \$71,880. The audited financial statements for the 2014 fiscal year were released after Ms. Lawless received the advance and additional performance incentive payments, and the audited financial statements for fiscal year 2014 included audit adjustments due to accounting errors, which reduced the unencumbered General fund balance used in the calculation of performance incentive payments. The unencumbered modified accrual basis General fund balance for SCC 0000 from the audited financial statements for fiscal year 2014 of \$992,530 differed from the unencumbered General fund balance for fiscal year 2010 of \$281,867 by \$710,843. Therefore, the performance incentive received by Ms. Lawless in the 2015 fiscal year should have been \$35,542 (\$710,843 x 5%). Since Ms. Lawless received total performance incentives of \$71,880, this resulted in an overpayment to Ms. Lawless in the amount of \$36,338.

**FINDING NUMBER 2016-013
 (Continued)**

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended has been hereby issued against former Treasurer Teresa Lawless and her bonding company, Travelers Casualty and Surety Company of America, will be jointly and severally liable in the amount of \$36,338, and in favor of the Lawrence County Educational Service Center General Fund.

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code § 9.39; State, ex. Rel. *Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att’y Gen. No. 80-074.

<i>Finding Number</i>	2016-014
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Finding for Recovery – Repaid Under Audit

The Center's former Superintendent's contract for the period of August 1, 2013 through July 31, 2018 stated "the Board agrees to compensate the superintendent a yearly payment equal to five percent of the unencumbered balance in the general fund(s), the baseline will be the fiscal year 2010 balance, as a performance incentive to be paid in the second pay period in July of each year beginning in 2013 through regular payroll."

Although the performance incentive was based on unencumbered fund balance, the contract defined neither the term "unencumbered" nor which special cost centers (SCC) within the general fund were to be used to calculate the performance incentive. The initial performance incentive was tested during the Special Audit performed by the Public Integrity Assurance Team of the Auditor of State. See the Special Audit report released by the Auditor of State for additional information on this matter. During the fiscal year ended June 30, 2014, the Center established the precedent of basing the performance incentive on the unencumbered balance of the General fund SCC 0000 as presented on the modified accrual basis of accounting. This precedent was established by basing the performance incentive received in the fiscal year ended June 30, 2014 on the unencumbered modified accrual balance of the General fund special cost center SCC 000 at June 30, 2013.

On September 30, 2014, Dr. Payne received a \$40,000 advance on the performance incentive for fiscal year ended June 30, 2014. The audited financial statements for the 2014 fiscal year were released after Dr. Payne received the advance payments, and the audited financial statements for fiscal year 2014 included audit adjustments due to accounting errors, which reduced the unencumbered General fund balance used in the calculation of the performance incentive payment. The unencumbered modified accrual basis General fund balance for SCC 0000 from the audited financial statements for fiscal year 2014 of \$992,530 differed from the unencumbered fund balance for fiscal year 2010 of \$281,867 by \$710,843. Therefore, the performance incentive received by Dr. Payne in the 2015 fiscal year should have been \$35,542 (\$710,843 x 5%). Since Dr. Payne was advanced a payment of \$40,000, this resulted in an overpayment to Dr. Payne in the amount of \$4,458.

In accordance with the foregoing facts and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public monies illegally expended has been hereby issued against Dr. James Payne in the amount of \$4,458, and in favor of the Lawrence County Educational Service Center General Fund.

**FINDING NUMBER 2016-014
 (Continued)**

Under Ohio law, any public official who either authorizes an illegal expenditure of public funds or supervises the accounts of a public office from which such illegal expenditure is strictly liable for the amount of the expenditure. *Seward v. National Surety Corp.* (1929), 120 Ohio St. 47; 1980 Op. Att’y Gen. No. 80-074; Ohio Rev. Code § 9.39; *State, ex. Rel. Village of Linndale v. Masten* (1985), 18 Ohio St.3d 228. Public officials controlling public funds or property are liable for the loss incurred should such funds or property be fraudulently obtained by another, converted, misappropriated, lost or stolen to the extent that recovery or restitution is not obtained from the persons who unlawfully obtained such funds or property, 1980 Op. Att’y Gen. No. 80-074.

On August 23, 2018, Dr. James Payne reimbursed the Center, via check number 8190, in amount of \$87,794, which represents the total of the performance incentives in fiscal years 2014 and 2015 he received from the Center.

<i>Finding Number</i>	2016-015
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Noncompliance

Ohio Rev. Code § 3309.01(V)(1) states that except as otherwise provided in this division, "compensation" means all salary, wages, and other earnings paid to a contributor of the public school employees retirement system (SERS) by reason of employment. The salary, wages, and other earnings shall be determined prior to determination of the amount required to be contributed to the employees' savings fund under section 3309.47 of the Revised Code and without regard to whether any of the salary, wages, or other earnings are treated as deferred income for federal income tax purposes.

Ohio Rev. Code § 3309.01(V)(2)(b) states that compensation does not include payments made for accrued but unused vacation leave. Ohio Rev. Code § 3309.01(V)(2)(c) states that compensation does not include payments made for vacation pay covering concurrent periods for which other salary or compensation is also paid or during which benefits are paid under this chapter.

Ohio Rev. Code § 3309.01(V)(2)(f) states that compensation does not include payments made to or on behalf of a contributor that are in excess of annual compensation that may be taken into account by the retirement system. Furthermore, compensation not subject to SERS contributions, includes, but is not limited to one-time and/or lump sum payments made to an employee where such payments are not made for additional services actually rendered, or not based upon the employee's standard rate of pay, such as: severance, incentive bonuses, or signing bonuses.

The former Treasurer, Teresa Lawless, received vacation payouts (for unused vacation leave) and performance incentives for which the Center erroneously paid the Board's share of retirement to SERS along with the pick-up of Ms. Lawless' share of SERS (per her contract) as follows:

- A fiscal year 2013 performance incentive difference in the amount of \$18,994 was paid on August 15, 2014;
- An advance fiscal year 2014 performance incentive payment in the amount of \$40,000 was paid on September 30, 2014;
- A vacation leave payout in the amount of \$7,789 was paid on January 15, 2015;
- A vacation leave payout in the amount of \$7,789 was paid on January 30, 2015;
- The remainder of a fiscal year 2014 performance incentive in the amount of \$31,880 was paid on February 27, 2015; and

**FINDING NUMBER 2016-015
 (Continued)**

- An advance fiscal year 2015 performance incentive in the amount of \$50,000 was paid on September 30, 2015.

Compensation for vacation leave payout and performance incentives identified above totaled \$156,452 resulted in the Center paying \$21,903 (14% of \$156,452) for the employer share and \$15,645 (10% of \$156,452) for the Board pick-up of employee share for a total of \$37,548.

We recommend the Center review the SERS definition of compensation subject to SERS to determine whether compensation other than salaries and wages is subject to SERS contributions. This matter will be referred to the School Employees Retirement System.

<i>Finding Number</i>	2016-016
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Noncompliance

Ohio Rev. Code § 3307.1(L)(1)(a) states that except as otherwise provided in this division, "compensation" means all salary, wages, and other earnings paid to a contributor of the state teachers retirement system (STRS) by reason of employment, including compensation paid pursuant to a supplemental contract. The salary, wages, and other earnings shall be determined prior to determination of the amount required to be contributed to the employees' savings fund or defined contribution fund under section 3307.26 of the Revised Code and without regard to whether any of the salary, wages, or other earnings are treated as deferred income for federal income tax purposes.

Ohio Rev. Code § 3307.01(L)(2)(h) states that compensation does not include any amount paid by the employer as a retroactive increase in salary, wages or other earnings. Furthermore, compensation not subject to STRS contributions, includes, but is not limited to one-time and/or lump sum payments made to an employee where such payments are not made for additional services actually rendered, or not based upon the employee's standard rate of pay, such as: severance, incentive bonuses, or signing bonuses.

The former Superintendent, Dr. James Payne, received performance incentives for which the Center erroneously paid the Board's share of retirement to STRS along with the pick-up of Dr. Payne's share of STRS (per her contract) as follows:

- The remainder of the fiscal year 2013 performance incentive difference in the amount of \$18,994 was paid on August 15, 2014; and
- An advance fiscal year 2014 performance incentive in the amount of \$40,000 was paid on September 30, 2014.

Compensation for performance incentives identified above totaled \$58,994 resulted in the Center paying \$8,259 (14% of \$58,994) for the employer share and \$7,079 (12% of \$58,994) for the Board pick-up of employee share for a total of \$15,338.

On August 23, 2018, Dr. James Payne reimbursed the Center, via check number 8190, in amount of \$87,794, which represents the total of the performance incentives he received in fiscal years 2014 and 2015 from the Center.

We recommend the Center review STRS' definition of compensation subject to STRS to determine whether compensation other than salaries and wages is subject to STRS contributions. This matter will be referred to the State Teachers Retirement System.

**FINDING NUMBER 2016-016
(Continued)**

Officials' Response:

We did not receive a response from Officials to the findings reported above.

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**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016 AND 2015**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2014-001	Noncompliance and Internal Control – Inaccurate reconciliations, timeliness of the SCOCA accounting system monthly close-outs and inaccurate financial reporting	No	Not Corrected – See Finding Number 2016-001
2014-002	Noncompliance and Internal Control – Violations related to sponsor contract	No	Partially Corrected – See Finding Number 2016-002
2014-003	Internal Control – Lack of detailed information related to disbursements, and lack of segregation of duties	No	Partially Corrected – See Finding Number 2016-003
2014-004	Noncompliance and Internal Control – Timeliness of deposits of receipts and posting of receipts	No	Partially Corrected – See Finding Number 2016-004
2014-005	Internal Control – Sequential order of check numbers	No	Partially Corrected – See Finding Number 2016-005
2014-006	Internal Control – Leave approval	Yes	
2014-007	Internal Control – Minute record not provided timely, no indication that official financial information was approved or what financial statements entailed.	No	Partially Corrected – See Finding Number 2016-006
2014-008	Noncompliance – Annual financial report filed late	No	Not Corrected – See Finding Number 2016-007

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Dave Yost • Auditor of State

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 27, 2018**