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January 21, 2003

The attached audit was conducted and prepared for release prior to the commencement of my term of office on January 13, 2003. Thus, I am releasing this audit under the signature of my predecessor.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

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LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY

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REPORT OF INDEPENDENT ACCOUNTANTS

Lawrence County Educational Service Center
Lawrence County
111 South Fourth Street
Ironton, Ohio 45638

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Lawrence County Educational Service Center, Lawrence County, Ohio (the Educational Service Center) as of and for the year ended June 30, 2002 as listed in the table of contents. These general purpose financial statements are the responsibility of the Educational Service Center's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Lawrence County Educational Service Center, Lawrence County, as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2002, on our consideration of the Educational Service Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

December 20, 2002

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LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY, OHIO

Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002

	Governmental Fund Types			Account Groups		Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	General Fixed Assets	General Long-Term Obligations	
<u>Assets and Other Debits:</u>						
<u>Assets:</u>						
Equity in Pooled Cash and Cash Equivalents	\$338,249	\$33,270	\$154	\$0	\$0	\$371,673
Receivables:						
Accounts	5,950	0	0	0	0	5,950
Intergovernmental	250,679	13,193	0	0	0	263,872
Accrued Interest	1,291	0	0	0	0	1,291
Prepaid Items	13,630	1,223	0	0	0	14,853
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	100,215	0	100,215
<u>Other Debits:</u>						
Amount to be Provided from General Government Resources	0	0	0	0	324,072	324,072
Total Assets and Other Debits	<u>\$609,799</u>	<u>\$47,686</u>	<u>\$154</u>	<u>\$100,215</u>	<u>\$324,072</u>	<u>\$1,081,926</u>
<u>Liabilities, Fund Equity and Other Credits:</u>						
<u>Liabilities:</u>						
Accounts Payable	\$1,740	\$0	\$154	\$0	\$0	\$1,894
Accrued Wages and Benefits Payable	40,577	0	0	0	0	40,577
Compensated Absences Payable	17,635	0	0	0	162,844	180,479
Intergovernmental Payable	8,577	313	0	0	161,228	170,118
Deferred Revenue	107,134	12,442	0	0	0	119,576
Total Liabilities	<u>175,663</u>	<u>12,755</u>	<u>154</u>	<u>0</u>	<u>324,072</u>	<u>512,644</u>
<u>Fund Equity and Other Credits:</u>						
Investment in General Fixed Assets	0	0	0	100,215	0	100,215
Fund Balance:						
Reserved for Encumbrances	8,346	8,902	0	0	0	17,248
Unreserved:						
Undesignated	425,790	26,029	0	0	0	451,819
Total Fund Equity and Other Credits	<u>434,136</u>	<u>34,931</u>	<u>0</u>	<u>100,215</u>	<u>0</u>	<u>569,282</u>
Total Liabilities, Fund Equity and Other Credits	<u>\$609,799</u>	<u>\$47,686</u>	<u>\$154</u>	<u>\$100,215</u>	<u>\$324,072</u>	<u>\$1,081,926</u>

See accompanying notes to the general purpose financial statements

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LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures
and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	Governmental Fund Types			Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	
<u>Revenues:</u>				
Intergovernmental	\$642,374	\$186,385	\$3,297	\$832,056
Interest	7,537	0	0	7,537
Rent	17,957	0	0	17,957
Customer Services	1,162,607	0	0	1,162,607
Miscellaneous	5,843	0	0	5,843
Total Revenues	1,836,318	186,385	3,297	2,026,000
<u>Expenditures:</u>				
Current:				
Instruction				
Regular	117,300	68,850	0	186,150
Adult/Continuing	0	99	0	99
Other	0	4,885	0	4,885
Support Services				
Pupils	816,276	41,770	0	858,046
Instructional Staff	345,377	500	0	345,877
Board of Education	47,532	0	0	47,532
Administration	261,150	54,946	0	316,096
Fiscal	104,728	2,504	0	107,232
Operation and Maintenance of Plant	8,713	0	0	8,713
Central	58,665	6,024	0	64,689
Non-Instructional Services	900	0	0	900
Capital Outlay	0	0	3,297	3,297
Total Expenditures	1,760,641	179,578	3,297	1,943,516
Excess of Revenues Over (Under) Expenditures	75,677	6,807	0	82,484
Fund Balance at Beginning of Year - Restated Note 17	358,459	28,124	0	386,583
Fund Balance at End of Year	<u>\$434,136</u>	<u>\$34,931</u>	<u>\$0</u>	<u>\$469,067</u>

See accompanying notes to the general purpose financial statements

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$553,258	\$553,258	\$0
Interest	8,767	8,767	0
Rent	17,957	17,957	0
Customer Services	1,200,128	1,200,128	0
Miscellaneous	5,843	5,843	0
Total Revenues	1,785,953	1,785,953	0
<u>Expenditures:</u>			
Current:			
Instruction			
Regular	128,223	128,223	0
Adult/Continuing	0	0	0
Other	0	0	0
Support Services:			
Pupils	852,297	852,297	0
Instructional Staff	386,622	386,622	0
Board of Education	49,003	49,003	0
Administration	276,611	276,611	0
Fiscal	119,865	119,865	0
Operation and Maintenance of Plant	10,122	10,122	0
Central	59,592	59,592	0
Non-Instructional Services	900	900	0
Capital Outlay	0	0	0
Total Expenditures	1,883,235	1,883,235	0
Excess of Revenues Over (Under) Expenditures	(97,282)	(97,282)	0
Fund Balance at Beginning of Year	412,501	412,501	0
Prior Year Encumbrance Appropriated	13,700	13,700	0
Fund Balance at End of Year	\$328,919	\$328,919	\$0

Special Revenue Funds			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$185,634	\$185,634	\$0	\$3,297	\$3,297	\$0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
185,634	185,634	0	3,297	3,297	0
72,010	72,010	0	0	0	0
99	99	0	0	0	0
5,000	5,000	0	0	0	0
43,500	43,500	0	0	0	0
889	889	0	0	0	0
0	0	0	0	0	0
59,463	59,463	0	0	0	0
2,500	2,500	0	0	0	0
0	0	0	0	0	0
6,024	6,024	0	0	0	0
0	0	0	0	0	0
0	0	0	3,297	3,297	0
189,485	189,485	0	3,297	3,297	0
(3,851)	(3,851)	0	0	0	0
27,323	27,323	0	0	0	0
896	896	0	0	0	0
\$24,368	\$24,368	\$0	\$0	\$0	\$0

(Continued)

LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY, OHIO

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual (Budget Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<u>Revenues:</u>			
Intergovernmental	\$742,189	\$742,189	\$0
Interest	8,767	8,767	0
Rent	17,957	17,957	0
Customer Services	1,200,128	1,200,128	0
Miscellaneous	5,843	5,843	0
Total Revenues	1,974,884	1,974,884	0
<u>Expenditures:</u>			
Current:			
Instruction			
Regular	200,233	200,233	0
Adult/Continuing	99	99	0
Other	5,000	5,000	0
Support Services:			
Pupils	895,797	895,797	0
Instructional Staff	387,511	387,511	0
Board of Education	49,003	49,003	0
Administration	336,074	336,074	0
Fiscal	122,365	122,365	0
Operation and Maintenance of Plant	10,122	10,122	0
Central	65,616	65,616	0
Non-Instructional Services	900	900	0
Capital Outlay	3,297	3,297	0
Total Expenditures	2,076,017	2,076,017	0
Excess of Revenues Over (Under) Expenditures	(101,133)	(101,133)	0
Fund Balance at Beginning of Year	439,824	439,824	0
Prior Year Encumbrance Appropriated	14,596	14,596	0
Fund Balance at End of Year	\$353,287	\$353,287	\$0

See accompanying notes to the general purpose financial statements.

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 1 - REPORTING ENTITY

The Lawrence County Educational Service Center (the "Educational Service Center") is located in Ironton, Ohio, the county seat. The Educational Service Center provides supervisory, special education, administrative, and other services to Dawson-Bryant, Fairland, Rock Hill, South Point, and Symmes Valley Local School Districts, as well as the Lawrence County Joint Vocational School District. Ironton City School District and Chesapeake-Union Exempted Village School District are served on a limited basis in the area of handicapped students. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Lawrence County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 22 support staff employees and 17 certified administrators that provide services to the school districts.

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

Component units are legally separate organizations for which the Educational Service Center is financially accountable. The Educational Service Center is financially accountable for an organization if the Educational Service Center appoints a voting majority of the organization's governing board and (1) the Educational Service Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Educational Service Center is legally entitled to or can otherwise access the organization's resources; the Educational Service Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Educational Service Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Educational Service Center in that the Educational Service Center approves the budget, the issuance of debt or the levying of taxes for the organization. The Educational Service Center has no component units.

The Educational Service Center participates in three organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association, Pilasco Ross SERRC, and the Lawrence County Joint Vocational School District. Information about these organizations is presented in Note 13 to the combined financial statements.

The Educational Service Center participates in two organizations which are defined as insurance purchasing pools, the Ohio School Boards Association Workers' Compensation Group Rating Plan and the Lawrence County Schools Insurance Purchasing Consortium. Information about these organizations is presented in Note 14 to the combined financial statements.

Effective July 1, 2001, the Educational Service Center ceased to be the fiscal agent for the Appalachian Family and Children First Council.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

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

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

Governmental Fund Types

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

General Fund

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

Special Revenue Funds

These funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Account Groups

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

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

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

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental funds.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place, provided the resources are available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

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

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

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. Receivables that will not be collected within the available period have also been reported as deferred revenue.

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

C. Budgetary Data

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

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

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

Appropriations

The annual appropriation resolution is enacted by the Educational Service Center at the fund, function, and object level of expenditures. When necessary, the Educational Service Center passes a temporary appropriation measure that is maintained until annual appropriations are adopted. The Educational Service Center limits the amount of the appropriations by fund to the amount of estimated resources, and the sum of expenditures plus encumbrances to the amount of each appropriation. Any revisions that alter the total of any fund appropriation, or alter any total function appropriations within a fund, or alter object appropriations within functions, must be approved by the Educational Service Center Board.

The Educational Service Center Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the estimated resources set forth in the budget approved by the State Department of Education. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds. Prior to June 30,

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

the Board passed an appropriation resolution which matched encumbrances outstanding at year-end plus actual expenditures during the fiscal year.

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Cash Equivalents

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

During fiscal year 2002, investments were limited to repurchase agreements and certificates of deposit which are reported at cost.

Following Ohio statutes, the Educational Service Center has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2002 amounted to \$7,537, which includes \$1,652 assigned from other Educational Service Center funds.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2002, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure in the year in which services are consumed.

F. Inventory

Inventories of governmental funds are stated at cost. For all funds, cost is determined on a first-in, first-out basis. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased. Reported material and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets. The Educational Service Center had no inventory items at June 30, 2002.

G. Fixed Assets and Depreciation

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

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

Assets in the general fixed assets account group are not depreciated.

H. Interfund Assets/Liabilities

Receivables and payables resulting from transactions between funds for services provided or goods received are classified as "due from/to other funds" on the balance sheet. Short-term Interfund loans are classified as "Interfund receivables/payables". Long-term Interfund loans are classified as "advances to/from other funds" and are equally offset by a fund balance reserve account which indicates that they do not constitute available expendable resources since they are not a component of net current assets.

I. Compensated Absences

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

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

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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

J. Accrued Liabilities and Long-Term Obligations

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

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

L. Fund Balance Reserves

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

M. Total Columns on General Purpose Financial Statements

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

N. Estimates

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

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

NOTE 3 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis), All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures for all funds (budget basis) rather than as a reservation of fund balance for governmental fund types.

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

Excess of Revenues Over (Under) Disbursements
All Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	\$75,677	\$6,807	\$0
Revenue Accruals	(50,365)	(751)	0
Expenditure Accruals	(99,634)	218	154
Prepays	(13,630)	(1,223)	0
Encumbrances	(9,330)	(8,902)	(154)
Budget Basis	(\$97,282)	(\$3,851)	\$0

NOTE 4 - DEPOSITS AND INVESTMENTS

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

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

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

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

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

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

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

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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

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

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

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$240,960 and the bank balance was \$342,926. Of the bank balance:

1. \$157,926 was covered by federal depository insurance; and
2. \$185,000 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the Educational Service Center to a successful claim by the FDIC.

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

	Category 3	Carrying and Fair Value
Repurchase Agreements	\$130,713	\$130,713

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

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement 9	\$371,673	\$0
Investments:		
Repurchase Agreements	(130,713)	130,713
GASB Statement 3	\$240,960	\$130,713

NOTE 5 - STATE FUNDING

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

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

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

multiplying the sum of the average daily memberships of all of the school districts served by the Educational Service Center by \$37. This amount is provided from State resources.

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

NOTE 6 - RECEIVABLES

Receivables at June 30, 2002, consisted of accounts (customer services) and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables follows:

	<u>Amounts</u>
General Fund	
Community Alternative Funding System	\$221,257
Due from Local Government	29,422
Special Revenue Fund	
Dental Sealant	13,193
Total Intergovernmental Receivables	\$263,872

NOTE 7 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2002 follows:

	<u>Balance at</u>		<u>Additions</u>		<u>Deletions</u>		<u>Balance at</u>
<u>Asset Category</u>	<u>06/30/01</u>					<u>06/30/02</u>	
Furniture, Fixtures and Equipment	\$111,382		\$19,435		\$30,602		\$100,215

NOTE 8 - RISK MANAGEMENT

The Educational Service Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2002, the Educational Service Center contracted with Nationwide Insurance for liability insurance. The policy has no deductible, with a \$1,000,000 single occurrence limit with a \$3,000,000 aggregate limit. Settled claims have not exceeded this commercial coverage in any of the past five years. There has not been a significant reduction in coverage from the prior year.

For fiscal year 2002, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 14). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

participating educational service centers and school districts is calculated as one experience and a common premium rate is

applied to all educational service centers and school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to educational service centers and school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

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

NOTE 9 - DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan members are required to contribute 9.3 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$72,994, \$46,242, and \$83,799, respectively; 96 percent has been contributed for fiscal years 2002, 2001 and 2000.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 45 N. Fourth Street, Columbus, Ohio 43215-3634.

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

Plan members are required to contribute 9 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2002, 5.46 percent of annual covered payroll was the portion used to fund pension obligations. For fiscal year 2001, 4.2 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000 were \$22,260, \$25,170, and \$30,620, respectively; 0 percent has been contributed for fiscal years 2002 and 2001, and 100 percent for fiscal year 2000. \$22,260 represents the unpaid contribution for fiscal year 2002. This liability is recorded as a liability within the general long-term obligations account group.

NOTE 10 - POSTEMPLOYMENT BENEFITS

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2002, the STRS Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$34,576 for fiscal year 2002.

STRS pays health care benefits from the Health Care Reserve Fund. At June 30, 2001, (the latest information available) the balance in the Fund was \$3.256 billion. For the year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2002, employer contributions to fund health care benefits were 8.54 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2002, the minimum pay was established at \$12,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2002 fiscal year equaled \$57,095.

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2001 (the latest information available), were \$161,432,934 and the target level was \$242.2 million. At June 30, 2001, SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 11 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio Healthcare Benefits. The Service Center pays sixty-five percent of monthly premiums, or \$634.12 for family coverage and sixty-five percent of monthly premiums, or \$256.72 for individual coverage. Premiums are paid from the same funds that pay the employees' salaries. The Service Center also provides prescription drug insurance to its employees through the same insurance carrier.

NOTE 12 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2002 were as follows:

	Outstanding 06/30/01	Additions	Deductions	Outstanding 06/30/02
Compensated Absences	\$185,894	\$19,629	\$42,679	\$162,844
Intergovernmental Payable	89,054	77,328	5,154	161,228
Total General Long Term Obligations	\$274,948	\$96,957	\$47,833	\$324,072

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

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts and educational service centers within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts and educational service centers. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts and State funding. The Educational Service Center paid \$6,833 for services provided during fiscal year 2002. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

The Lawrence County Joint Vocational School District is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from Chesapeake Union Exempted Village School District, two from the Ironton City School District, and two from the Lawrence County Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Lawrence County Joint Vocational School District, 11627 State Route 243, Chesapeake, OH 45619. The Educational Service Center made no payments to the Joint Vocational School District in Fiscal Year 2002.

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

The SERRC is governed by a board composed of superintendents of participating schools, parents of children with disabilities, representatives of county boards of MR/DD, Joint Vocational Schools, Pickaway-Ross CTC, Shawnee State University, and Pike, Ross, Lawrence, and South Central Ohio Educational Service Centers, whose terms rotate every year. The degree of control exercised by any participating school district is limited to its representation on the Board. The Ironton City School District's superintendent is on the SERRC Board. The fiscal agent for the SERRC is Dawson-Bryant LSD. Financial information can be obtained by contacting Donald Washburn, Director of Pilasco-Ross, at the South Central Ohio Educational Service Center, 411 Court Street, Portsmouth, Ohio 45663.

NOTE 14 - INSURANCE PURCHASING POOLS

The Educational Service Center participates in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as the coordinator of the program. Each year, the participating school districts and educational service centers pay an enrollment fee to the GRP to cover the costs of administering the program.

Lawrence County Educational Service Center
Notes to the General Purpose Financial Statements
For the Fiscal Year Ended June 30, 2002

The Educational Service Center participates in the Lawrence County Schools Insurance Purchasing Consortium, an insurance purchasing pool. The consortium's business and affairs are conducted by a nine member Board of Directors consisting of the superintendents of member school districts and educational service centers.

NOTE 15 - CONTINGENCIES

A. Grants

The Educational Service Center received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Educational Service Center at June 30, 2002.

B. Litigation

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

NOTE 16 - STATE SCHOOL FUNDING DECISION

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

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

NOTE 17 – RESTATEMENT OF FUND BALANCE

During fiscal year 2002, the "Parents as Teachers" fund was eliminated. That negative fund balance along with any activity in that fund was combined with the general fund. In the previous years, this was reported as a special revenue fund; thus, the beginning fund balance of both the general and special revenue fund types had to be restated as shown below.

	General	Special Revenue
Beginning Fund Balance, 7/1/01	\$360,161	\$26,421
Parents as Teachers Beginning Fund Balance, 7/1/01	(1,703)	1,703
Restated Fund Balance, 7/1/01	\$358,458	\$28,124

NOTE 18 – LEGAL COMPLIANCE

Contrary to Ohio Revised Code, the Educational Service Center has not paid SERS employer contributions for fiscal years 2001 or 2002 as of June 30, 2002. As of November 4, 2002 these amounts had not been paid.



**STATE OF OHIO
OFFICE OF THE AUDITOR**

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

Lawrence County Educational Service Center
Lawrence County
111 South Fourth Street
Ironton, Ohio 45638

To the Board of Education:

We have audited the accompanying general purpose financial statements of the Lawrence County Educational Service Center, Lawrence County, Ohio (the Educational Service Center), as of and for the year ended June 30, 2002, and have issued our report thereon dated December 20, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Educational Service Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2002-17440-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the Educational Service Center in a separate letter dated December 20, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Educational Service Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Educational Service Center's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 2002-17440-002 and 2002-17440-003.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2002-17440-002 to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Educational Service Center in a separate letter dated December 20, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro", with a stylized, cursive script.

Jim Petro
Auditor of State

December 20, 2002

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002**

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

Finding 2002-17440-001

Noncompliance Citation

Ohio Rev. Code Section 3309.49 addresses issues such as membership in Public School Employees Retirement System (SERS), employment of retired members, contribution rates, and payments. These sections require governments to enroll most of their employees in the appropriate retirement system, withhold from the employees' wages, or pay on behalf of the employees, a certain percentage of earned wages as defined and to pay over to the appropriate system the amounts withheld, matched with an appropriate percentage of employer contributions.

However, we noted during testing that the SERS employer contributions had not been paid for fiscal years 2001 or 2002 as of June 30, 2002. This could result in fines and penalties being assessed against the Educational Service Center for non payment of the required contributions. These unpaid amounts are reflected as liabilities on the accompanying balance sheet.

We recommend the Educational Service Center begin to monitor all retirement remittances to ensure they are being paid on a timely basis.

Finding 2002-17440-002

Material Weakness

Fixed assets are to be tracked and recorded properly by the Educational Service Center to provide for accurate reporting of assets and internal control over these items. However, it was noted that the Educational Service Center had several control and recording errors in association with their fixed asset records. The following items were noted during testing:

1. The Educational Service Center did not issue tag numbers for all assets. Specifically, tag numbers have not been given to any of the assets kept off site in the Alternative School.
2. The Educational Service Center did not maintain an accurate fixed asset listing.
3. The Educational Service Center did not have the Board approve any disposals, nor did they fill out any disposal forms when discarding an item.
4. The Educational Service Center could not provide support for prior period adjustments listed on the fixed asset listing.
5. Additions purchased after June 30, 2002 were included in the fixed assets listing prepared as of June 30, 2002.
6. The Educational Service Center did not include all fixed assets on the fixed asset listing. Purchases were made for furniture and computer supplies in the superintendent's office that were not recorded.
7. The Educational Service Center had computer equipment listed that did not exist.

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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Finding 2002-17440-002 (Continued)

Material Weakness (Continued)

8. The Educational Service Center had items deleted that were still in their possession and were still being utilized.
9. The Educational Service Center had several items listed on FY02 fixed asset listing that were no longer at the Educational Service Center. These items have been discarded in the past with no record of when or how.
10. The Educational Service Center did not record a donated copier at the fair market value of donation on their fixed asset listing.
11. The Educational Service Center had no board adopted policy allowing employees to maintain equipment at their own homes.

These types of control and reporting errors can cause the fixed assets reported on the financial statements to be incorrect. Failure to properly dispose of fixed assets and not maintaining accurate records could also result in a "Finding for Recovery" being issued in the future. The lack of control over the assets also increases the susceptibility of theft or fraud.

Three items remained unaccounted for during the testing of fixed assets. Either these items need to be located, the proper disposal forms need to be located, or a possible "Finding for Recovery" could be issued in the future audit.

We recommend the Educational Service Center inventory all assets to develop a correct and up to date listing of all fixed assets. Then procedures should be put in place to ensure that when an asset is purchased it is immediately tagged and placed on that listing upon arrival. Policies should also be implemented to outline procedures for disposition of assets. They should include Board approval of any disposition and some type of documentation of this disposal. The Educational Service Center should also do a physical inventory on a periodic basis to ensure no items have been discarded or purchased without being properly reflected on the fixed asset listing. Along with the aforementioned policies, the Educational Service Center should develop a policy addressing the use of equipment at home for certain approved individuals.

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**SCHEDULE OF FINDINGS
JUNE 30, 2002
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

Finding 2002-10744-003

Reportable Condition

The Educational Service Center has implemented as part of its control procedures a budgeting process in which the Board approves a budget and monitors its budget verses actual activity each month through review of monthly reports submitted to them by the treasurer. However, we noted that the budget originally approved by the Board was not properly entered into the financial accounting system of the Educational Service Center; nor was it entered in a timely manner. This resulted in inaccurate monthly financial reports throughout the fiscal year. We also noted that the budgeted amounts were altered during the year without Board approval. Without the Board approved budgetary data in the system through out the year, the Board is unable to properly monitor the Educational Service Center's activity to ensure they are expending monies in the areas budgeted.

We recommend the Treasurer enter the budgeted revenue and appropriation amounts approved by the Board. These amounts must not only agree in total, but also agree at the legal level of control approved by the Board. The budget should be entered in a timely manner to serve as a monitoring tool for management. Any amendments should also be approved by the Board and entered into the system in a timely manner.



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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
FEBRUARY 4, 2003**