

**LAWRENCE COUNTY  
EDUCATIONAL SERVICE CENTER**

Lawrence County, Ohio

Regular Audit

July 1, 2003 through June 30, 2004

Fiscal Year Audited Under GAGAS: 2004

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

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**Auditor of State  
Betty Montgomery**

Board of Education  
Lawrence County Educational Service Center  
111 South 4<sup>th</sup> Street  
Ironton, Ohio 45638

We have reviewed the *Independent Auditor's Report* of the Lawrence County Educational Service Center, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period July 1, 2003 through June 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lawrence County Educational Service Center is responsible for compliance with these laws and regulations.

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

BETTY MONTGOMERY  
Auditor of State

June 13, 2005

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**Lawrence County Educational Service Center**  
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For the Fiscal Year Ended June 30, 2004

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
Lawrence County Educational Service Center  
111 South 4<sup>th</sup> Street  
Ironton, Ohio 45638

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lawrence County Educational Service Center (the Center), Lawrence County, as of and for the year ended June 30, 2004, which collectively comprise the Center's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Center, as of June 30, 2004, and the respective changes in financial position thereof, and the respective budgetary comparison for the general fund 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 May 31<sup>st</sup>, 2005, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 3 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

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

Balestra, Harr & Scherer, CPAs, Inc.

May 31, 2005

## Lawrence County Educational Service Center

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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The discussion and analysis of the Lawrence County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the Educational Service Center's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the Educational Service Center's financial performance.

### **FINANCIAL HIGHLIGHTS**

**Key financial highlights for the fiscal year 2004 are as follows:**

- Net assets of governmental activities increased \$16,940.
- General revenues accounted for \$1,194,161 in revenue or 66% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions, accounted for \$619,295 or 34% of total revenues of \$1,813,456.
- The Educational Service Center had \$1,796,516 in expenses related to governmental activities; only \$619,295 of these expenses were offset by program specific charges for services.
- The Educational Service Center has two major funds; the General Fund and the Emergency Repair Grant Capital Projects Fund. The General Fund had \$1,599,584 in revenues and other financing sources and \$1,507,930 in expenditures and other financing uses. The General Fund's balance increased \$91,654. The Emergency Repair Grant Capital Projects Fund had \$44,519 in revenues and \$145,556 in expenditures. The Classroom Facilities Capital Projects Fund's balance decreased by \$101,037.

### **USING THIS ANNUAL FINANCIAL REPORT**

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

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



## Lawrence County Educational Service Center

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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### ***Reporting the Educational Service Center as a Whole***

#### *Statement of Net Assets and Statement of Activities*

While this document contains information about the funds used by the Educational Service Center to provide programs and activities for educational services, the view of the Educational Service Center as a whole looks at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

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

- In the Statement of Net Assets and the Statement of Activities, all of the Educational Service Center's programs and services are reported as governmental activities including instruction and support services.

### ***Reporting the Educational Service Center's Most Significant Funds***

#### *Fund Financial Statements*

The analysis of the Educational Service Center's major funds begins on page 6. Fund financial reports provide detailed information about the Educational Service Center's major funds. The Educational Service Center uses a number of funds to account for a multitude of financial transactions. However, these fund financial statements focus on the School District's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Emergency Repair Grant Capital Projects Fund.

***Governmental Funds*** Most of the Educational Service Center's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at fiscal year end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Educational Service Center's general governmental operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs and services. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

# Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2004

Unaudited

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## THE EDUCATIONAL SERVICE CENTER AS A WHOLE

Recall that the Statement of Net Assets provides the perspective of the Educational Service Center as a whole. Table 1 provides a summary of the School District's net assets for 2004.

Table 1  
Net Assets

	Governmental Activities 2004	Governmental Activities 2003
<b>Assets</b>		
Current and Other Assets	\$876,668	\$980,964
Capital Assets	189,120	58,663
Total Assets	<u>1,065,788</u>	<u>1,039,627</u>
<b>Liabilities</b>		
Long-term Liabilities	206,059	173,733
Other Liabilities	85,016	108,121
Total Liabilities	<u>291,075</u>	<u>281,854</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Debt	189,120	58,663
Restricted	332,090	539,288
Unrestricted	253,503	159,822
Total Net Assets	<u>\$774,713</u>	<u>\$757,773</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2004, the Educational Service Center's assets exceeded liabilities by \$774,713. Of this total, \$253,503 is unrestricted in use.

A portion of the Educational Service Center's net assets, \$332,090, represents resources that are subject to external restriction on how they may be used. These restricted resources are for grants and the alternative education building renovation project.

## Lawrence County Educational Service Center

*Management's Discussion and Analysis*

*For the Fiscal Year Ended June 30, 2004*

*Unaudited*

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2004. Since this is the first year Lawrence County Educational Service Center has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2003 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2  
Changes in Net Assets

	Governmental Activities
	<u>2004</u>
<b>Revenues</b>	
Program Revenues	
Charges for Services and Sales	\$499,797
Operating Grants and Contributions	119,498
Total Program Revenues	<u>619,295</u>
General Revenues	
Grants and Entitlements	1,134,908
Investment Earnings	243
Rent	1,120
Miscellaneous	57,890
Total General Revenues	<u>1,194,161</u>
Total Revenues	<u>1,813,456</u>
<b>Program Expenses</b>	
Instruction:	
Regular	178,999
Support Services:	
Pupil	636,577
Instructional Staff	315,640
Board of Education	72,235
Administration	279,859
Fiscal	266,480
Business	488
Operation and Maintenance of Plant	13,057
Central	33,181
Total Expenses	<u>1,796,516</u>
Increase in Net Assets	16,940
Net Assets, Beginning of Year	<u>757,773</u>
Net Assets, End of Year	<u>\$ 774,713</u>

Net assets of the Educational Service Center' governmental activities increased \$16,940. Total governmental expenses of \$1,796,516 were offset by program revenues of \$619,295 and general revenues of \$1,194,161. Program revenues supported 34% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from grants and charges for services. These revenue sources represent 97% of total governmental revenue. The largest expense of the Educational Service Center is for Support Services. Support Services totaled \$1,617,517 or 90% of total governmental expenses for

**Lawrence County Educational Service Center**

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

fiscal year 2004.

The Statement of Activities shows the cost of program services and the charges for services offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of those services supported by fees charged for services provided. Comparisons to 2003 have not been made since they are not available.

Table 3  
Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
	<u>2004</u>	<u>2004</u>
Program Expenses		
Instruction:		
Regular	\$178,999	(\$64,005)
Support Services:		
Pupil	636,577	(440,104)
Instructional Staff	315,640	(222,404)
Board of Education	72,235	(50,962)
Administration	279,859	(181,517)
Fiscal	266,480	(186,031)
Business	488	(488)
Operation and Maintenance of Plant	13,057	(9,068)
Central	33,181	(22,642)
Total	<u>\$1,796,516</u>	<u>(\$1,177,221)</u>

**THE EDUCATIONAL SERVICE CENTER FUNDS**

The Educational Service Center's major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$1,877,827 and expenditures and other financing uses of \$1,928,810.

The Emergency Repair Grant Capital Project major fund showed the largest fund balance fluctuation during the fiscal year, showing a decrease in fund balance of \$101,037. This is due to capital outlay for the renovations project for the rented building that houses the alternative education program.

The General Fund showed an increase in fund balance for the current fiscal year of \$91,654. This is due primarily to the increase in grant monies received.

# Lawrence County Educational Service Center

*Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004  
Unaudited*

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## **General Fund Budgeting Highlights**

The Educational Service Center's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. During the course of fiscal year 2004, the Educational Service Center made significant amendments throughout the year to its budget.

By law Educational Service Center's are not required to file a Certificate of Estimated Resources. For the General Fund, budgetary basis of expenditures were \$1,516,780, which were below original estimates of \$3,474,232. This variance is due to the Educational Service Center not expending all of the appropriated monies because of revenues not being received by fiscal year end.

The School District's ending unobligated General Fund balance was \$369,559.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### ***Capital Assets***

At the end of fiscal year 2004, the Educational Service Center had \$189,120 invested in furniture and equipment and construction in progress. For additional information on capital assets, see Note 8 to the basic financial statements. Table 4 shows fiscal year 2004 balances compared to 2003.

Table 4  
Capital Assets  
(Net of Depreciation)

	Governmental Activities	
	2004	2003
Furniture and Equipment	\$53,084	\$58,663
Construction in Progress	136,036	0
Totals	<u>\$189,120</u>	<u>\$58,663</u>

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

## **CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the Educational Service Center's finances and to show the Educational Service Center's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Theresa Lawless, Treasurer at Lawrence County Education Service Center, 111 South 4<sup>th</sup> Street, Ironton, Ohio 45638.

**Lawrence County Educational Service Center**

*Statement of Net Assets*

*June 30, 2004*

	<u>Governmental Activities</u>
<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$452,946
Accounts Receivable	7,550
Intergovernmental Receivable	416,172
Nondepreciable Capital Assets	136,036
Depreciable Capital Assets, Net	<u>53,084</u>
<i>Total Assets</i>	<u>1,065,788</u>
<b>Liabilities</b>	
Accounts Payable	5,068
Accrued Wages and Benefits Payable	29,756
Contracts Payable	30,469
Intergovernmental Payable	19,723
Long-Term Liabilities:	
Due within One Year	119,980
Due in More than One Year	<u>86,079</u>
<i>Total Liabilities</i>	<u>291,075</u>
<b>Net Assets</b>	
Invested in Capital Assets, Net of Related Debt	189,120
Restricted for:	
Other Purposes	2,955
Capital Outlay	329,135
Unrestricted (Deficit)	<u>253,503</u>
<i>Total Net Assets</i>	<u><u>\$774,713</u></u>

See accompanying notes to the basic financial statements.

**Lawrence County Educational Service Center**  
*Statement of Activities*  
For the Fiscal Year Ended June, 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants, Contributions and Interest	
<b>Governmental Activities:</b>				
Instruction:				
Regular	\$178,999	\$36,960	\$78,034	(\$64,005)
Support Services:				
Pupils	636,577	183,448	13,025	(440,104)
Instructional Staff	315,640	91,922	1,314	(222,404)
Board of Education	72,235	21,273	0	(50,962)
Administration	279,859	75,518	22,824	(181,517)
Fiscal	266,480	76,984	3,465	(186,031)
Business	488	0	0	(488)
Operation and Maintenance of Plant	13,057	3,989	0	(9,068)
Central	33,181	9,703	836	(22,642)
<b>Totals</b>	<u>\$1,796,516</u>	<u>\$499,797</u>	<u>\$119,498</u>	<u>(1,177,221)</u>
<b>General Revenues</b>				
Grants and Entitlements not Restricted to Specific Programs				1,134,908
Investment Earnings				243
Rent				1,120
Miscellaneous				57,890
<i>Total General Revenues</i>				<u>1,194,161</u>
<i>Change in Net Assets</i>				16,940
<i>Net Assets at Beginning of Year - See Note 3</i>				<u>757,773</u>
<i>Net Assets at End of Year</i>				<u><u>\$774,713</u></u>

See accompanying notes to the basic financial statements.

**Lawrence County Educational Service Center**

*Balance Sheet  
Governmental Funds  
June 30, 2004*

	General	Emergency Repair	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$380,176	\$52,198	\$20,572	\$452,946
Receivables:				
Accounts	0	0	7,550	7,550
Intergovernmental	108,766	307,406	0	416,172
Total Assets	<u>\$488,942</u>	<u>\$359,604</u>	<u>\$28,122</u>	<u>\$876,668</u>
 <b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts Payable	\$1,614	\$0	\$3,454	\$5,068
Accrued Wages and Benefits Payable	13,157	0	16,599	29,756
Contracts Payable	0	30,469	0	30,469
Intergovernmental Payable	1,889	0	2,565	4,454
Deferred Revenue	47,615	307,406	0	355,021
Total Liabilities	<u>64,275</u>	<u>337,875</u>	<u>22,618</u>	<u>424,768</u>
 <b>Fund Balances</b>				
Reserved for Encumbrances	9,153	0	135	9,288
Unreserved, Undesignated, Reported in:				
General Fund	415,514	0	0	415,514
Special Revenue Funds	0	0	5,369	5,369
Capital Project Funds	0	21,729	0	21,729
Total Fund Balances	<u>424,667</u>	<u>21,729</u>	<u>5,504</u>	<u>451,900</u>
Total Liabilities and Fund Balances	<u>\$488,942</u>	<u>\$359,604</u>	<u>\$28,122</u>	<u>\$876,668</u>

See accompanying notes to the basic financial statements.



**Lawrence County Educational Service Center**  
*Reconciliation of Total Governmental Fund Balances  
to Net Assets of Governmental Activities  
June 30, 2004*

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<b>Total Governmental Fund Balances</b>	\$451,900
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	189,120
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the funds: Grants	355,021
Intergovernmental Payable includes contractually required pension contributions which are not expected to be paid with expendable available financial resources and therefore are not reported in the funds.	(15,269)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: Compensated Absences Payable	<u>(206,059)</u>
Net Assets of Governmental Activities	<u><u>\$774,713</u></u>

See accompanying notes to the basic financial statements.

**Lawrence County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Fiscal Year Ended June 30, 2004*

	General	Emergency Repair	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Intergovernmental	\$1,093,884	\$44,519	\$137,171	\$1,275,574
Interest	243	0	0	243
Charges for Services	443,197	0	49,050	492,247
Tuition & Fees	0	0	7,550	7,550
Rent	1,120	0	0	1,120
Miscellaneous	57,890	0	0	57,890
<i>Total Revenues</i>	<u>1,596,334</u>	<u>44,519</u>	<u>193,771</u>	<u>1,834,624</u>
<b>Expenditures</b>				
Current:				
Instruction:				
Regular	0	0	177,632	177,632
Support Services:				
Pupils	575,805	0	29,966	605,771
Instructional Staff	342,748	0	3,091	345,839
Board of Education	72,229	0	0	72,229
Administration	206,130	4,760	51,582	262,472
Fiscal	226,239	4,760	7,903	238,902
Business	488	0	0	488
Operation and Maintenance of Plant	13,057	0	0	13,057
Central	31,281	0	1,900	33,181
Capital Outlay	0	136,036	0	136,036
<i>Total Expenditures</i>	<u>1,467,977</u>	<u>145,556</u>	<u>272,074</u>	<u>1,885,607</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>128,357</u>	<u>(101,037)</u>	<u>(78,303)</u>	<u>(50,983)</u>
<b>Other Financing Sources</b>				
Transfer - In	3,250	0	39,953	43,203
Transfer - Out	(39,953)	0	(3,250)	(43,203)
<i>Net Change in Fund Balances</i>	91,654	(101,037)	(41,600)	(50,983)
<i>Fund Balances at Beginning of Year - Restated (See Note 3)</i>	<u>333,013</u>	<u>122,766</u>	<u>47,104</u>	<u>502,883</u>
<i>Fund Balances at End of Year</i>	<u><u>\$424,667</u></u>	<u><u>\$21,729</u></u>	<u><u>\$5,504</u></u>	<u><u>\$451,900</u></u>

See accompanying notes to the basic financial statements.

**Lawrence County Educational Service Center**  
*Reconciliation of the Statement of Revenues, Expenditures, and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Fiscal Year Ended June 30, 2004*

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**Net Change in Fund Balances - Total Governmental Funds** (\$50,983)

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

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

Capital Asset Additions	151,238	
Depreciation Expense	<u>(20,227)</u>	131,011

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the gain on the disposal of capital assets:

Loss on Disposal Of Capital Assets	<u>(554)</u>	(554)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Grants		(21,168)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Intergovernmental Payables	(9,040)	
Compensated Absences Payable	<u>(32,326)</u>	<u>(41,366)</u>

*Change in Net Assets of Governmental Activities* \$16,940

See accompanying notes to the basic financial statements.

**Lawrence County Educational Service Center**  
*Statement of Revenues, Expenditures and Changes*  
*in Fund Balance - Budget and Actual*  
*(Non-GAAP Budgetary Basis)*  
*General Fund*  
*For the Fiscal Year Ended June 30, 2004*

	<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance with Final Budget: Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
Total Revenues and Other Sources	\$1,354,689	\$1,553,550	\$1,553,550	\$0
Total Expenditures and Other Uses	3,474,232	1,516,780	1,516,780	0
Net Change in Fund Balance	(2,119,543)	36,770	36,770	0
Fund Balance, July 1	242,222	242,222	242,222	0
Prior Year Encumbrances Appropriated	90,567	90,567	90,567	0
Fund Balance, June 30	(\$1,786,754)	\$369,559	\$369,559	\$0

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 1 - REPORTING ENTITY**

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

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

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

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

The Educational Service Center participates in three organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association, the Pilasco-Ross Special Education Regional Resource Center, and the Lawrence County Joint Vocational School District. Information about these organizations is presented in Note 14 to the basic financial statements.

The Educational Service Center participates in three organizations which are defined as insurance purchasing pools, the Ohio School Boards Association Workers' Compensation Group Rating Plan, the Ohio School Plan and the Lawrence County Schools Insurance Consortium. Information about these organizations is presented in Note 15 to the basic financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**A. Basis of Presentation**

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

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

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

**B. Fund Accounting**

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

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Educational Service Center are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The Educational Service Center has two major governmental funds:

**General Fund**

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

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Emergency Repair Grant Fund**

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

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

**C. Measurement Focus**

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

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

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

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

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

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

**Deferred Revenue** Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

*Expenses/Expenditures* On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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

**D. Budgetary Data**

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

The Educational Service Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object levels without resolution by the Board.

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

**E. Cash and Cash Equivalents**

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

During fiscal year 2004, 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 2004 amounted to \$243.

**F. Capital Assets and Depreciation**

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



Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

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

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

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

**G. Interfund Balances**

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

**H. Compensated Absences**

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

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

**I. Accrued Liabilities and Long-Term Obligations**

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

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, long-term loans, and capital leases are recognized as a liability on the fund financial statement when due.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**J. Interfund Transactions**

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

**K. Fund Balance Reserves**

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

**L. Estimates**

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

**M. Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Educational Service Center or through external restrictions imposed by creditors, grantors or laws, or regulations of other governments. Net assets restricted for other purposes include activities for federal and state grants restricted for specific purposes.

The Educational Service Center applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

*Changes in Accounting Principles:*

For the Fiscal year 2004, the Educational Service Center has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments : Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Government Fund Financial Statements." GASB Statement No. 34 creates new basic financial statements for reporting on the Educational Service Center's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

**NOTE 3– CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE**  
(continued)

The School District has also implemented Governmental Accounting Standards Board (GASB) Statement No.39, “Determining Whether Certain Organizations are Component Units.” GASB Statement No. 39 is an amendment to GASB Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationships with the primary government. The implementation of GASB Statement No. 39 did not have any effect on the Educational Service Center for the fiscal year ended June 30, 2004.

The implementations had the following effect on the June 30, 2004 fund balances of major and nonmajor funds of the Educational Service Center as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Alternative School Emergency Grant Fund</u>	<u>Non-major</u>	<u>Total</u>
Fund Balances, June 30, 2003	\$314,480	\$122,766	\$46,924	\$484,170
Interpretation 6 Adjustments	18,533	-	180	18,713
Restated Fund Balances, June 30, 2003	<u>\$333,013</u>	<u>\$122,766</u>	<u>\$47,104</u>	502,883
Adjustments to Comply with GASB 34:				
Capital Assets				58,663
Compensated Absences				(173,733)
Intergovernmental Payable				(6,229)
Deferred Revenue				<u>376,189</u>
Total GASB 34 Adjustments				254,890
Governmental Activities Net Assets, June 30, 2003				<u><u>\$757,773</u></u>

**NOTE 4 - 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 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budget Basis) presented for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP (modified accrual) basis are as follows:

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.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 4 - BUDGETARY BASIS OF ACCOUNTING** (continued)

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

Net Change in Fund Balance	
	General
GAAP Basis	\$91,654
Adjustments:	
Revenue Accruals	(46,034)
Expenditure Accruals	2,766
Encumbrances	(11,616)
Budget Basis	\$36,770

**NOTE 5 - DEPOSITS AND INVESTMENTS**

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

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

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

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

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;

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

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 (STAR Ohio).

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."

Deposits: At fiscal year end, the carrying amount of the Educational Service Center's deposits was \$203,924 and the bank balance was \$343,166. Of the bank balance, \$208,166 was covered by federal depository insurance and \$135,000 was uninsured and uncollateralized. Although the securities serving as collateral were held by the pledging financial institution's trust department in the School District's name, and all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

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	\$249,022	\$249,022

The classification of cash and cash equivalents, and investments on the basic 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."

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 5 - DEPOSITS AND INVESTMENTS** (continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the basic 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	\$452,946	\$0
Investments:		
Repurchase Agreements	(249,022)	249,022
GASB Statement 3	\$203,924	\$249,022

**NOTE 6 - STATE FUNDING**

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

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

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

**NOTE 7 - RECEIVABLES**

Receivables at June 30, 2004, 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:

	Amounts
<b>General Fund:</b>	
Community Alternative Funding System	\$108,766
<b>Major Capital Projects Fund:</b>	
Emergency Repair Grant	307,406
Total All Funds	\$416,172

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
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**NOTE 8 - CAPITAL ASSETS**

A summary of the changes in capital assets during fiscal year 2004 follows:

	Balance at 06/30/03	Additions	Deletions	Balance at 06/30/04
Capital Assets:				
Capital Assets not being Depreciated:				
Construction in Progress	\$0	\$136,036	\$0	\$136,036
Depreciable Capital Assets:				
Furniture, Fixtures, and Equipment	116,765	15,202	(9,149)	122,818
Total Depreciable Capital Assets	116,765	15,202	(9,149)	122,818
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(58,102)	(20,227)	8,595	(69,734)
Total Accumulated Depreciation	(58,102)	(20,227) *	8,595	(69,734)
Total Capital Assets being Depreciated, Net	58,663	(5,025)	(554)	53,084
Capital Assets, Net	<u>\$58,663</u>	<u>\$131,011</u>	<u>(\$554)</u>	<u>\$189,120</u>

\*Depreciation expense was charged to governmental functions as follows:

Support Services:	
Pupils	3,079
Instructional Staff	3,215
Administration	8,326
Fiscal	5,607
Total Depreciation Expense	<u>\$20,227</u>

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

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

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
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**NOTE 9 - RISK MANAGEMENT**

Educational Service Center joined together with other school districts and educational service centers in Ohio to participate in the Ohio School Plan (OSP), a public entity insurance purchasing pool. Each individual school district or educational service center enters into an agreement with the OSP and its premium is based on types of coverage, limits of coverage, and deductibles that it selects. The Educational Service Center pays this annual premium to the OSP (See Note 15).

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

General Liability:	
Each Occurrence	\$1,000,000
Aggregate Limit	3,000,000
Products – Complete Operations Aggregate Limit	1,000,000
Fire Legal Liability	500,000
Medical Expense Limit – per person/accident	10,000
Employers Liability – Stop Gap:	
Per Accident	1,000,000
Per Disease Each Employee	1,000,000
Per Disease Policy Limit	1,000,000
Employee Benefits Liability:	
Per Claim	1,000,000
Aggregate Limit	3,000,000
Excess Liability:	
Each Occurrence	1,000,000
Aggregate Limit	2,000,000

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

For fiscal year 2004, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 15). The intent of the GRP is to achieve the benefit of a reduced premium for the Educational Service Center by virtue of its grouping and representation with other participants in the GRP. The workers' compensation experience of the participating educational service centers and school districts is calculated as one experience and a common premium rate is applied to all educational service centers and school districts in the GRP. Each participant pays its workers' compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the "Equity Pooling Fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to educational service centers and school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

The Educational Service Center participates in the Lawrence County Schools Insurance Purchasing Consortium (Consortium), an insurance purchasing pool (Note 15). The intent of the Consortium is to achieve the benefit of a reduced health insurance premium for the School District by virtue of its grouping and representation with other participants in the consortium. Each participant pays its health insurance premium to the insurance provider that has been selected by the Consortium. Participation in the Consortium is limited to school districts that can meet the criteria outlined in the Consortium's operating articles. The firm of Cross and Associates provides administrative services to the Consortium.



Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS**

**A. State Teachers Retirement System**

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

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

New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC plan allows members to allocate all their member contributions and employer contributions equal to 10.5 percent of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. Contributions in to the DC plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

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

The DC Plan Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or lump-sum withdrawal. Employer contributions into members' accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designed beneficiary is entitled to receive the member's account balance.

Member contributions for the Combined Plan Benefits are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 10 - DEFINED BENEFIT PENSION PLANS** (continued)

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

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase or a lump-sum payment in addition to the original retirement allowance.

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

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

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

The Educational Service Center's required contributions for pension obligations to STRS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$93,866, \$99,550, and \$72,994, respectively; 83 percent has been contributed for fiscal year 2004, and 100 percent for fiscal years 2003 and 2002.

**B. School Employees Retirement System**

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current Educational Service Center rate is 14 percent of annual covered payroll. A portion of the Educational Service Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered payroll was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The Educational Service Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$24,326, \$14,755, and \$22,260, respectively; 60 percent has been contributed for fiscal years 2004 and 100 percent for 2003 and 2002.

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 11 - POSTEMPLOYMENT BENEFITS**

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

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2003, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For the Educational Service Center, this amount equaled \$6,870 for fiscal year 2004.

STRS pays health care benefits from the Health Care Reserve Fund. For the year ended June 30, 2004, net health care costs paid by STRS were \$352,301,000 and STRS had 105,000 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2004, the minimum pay was established at \$25,400. For the Educational Service Center, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$20,863.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2004 were \$223,443,805 and the target level was \$335.2 million. At June 30, 2004, SERS had net assets available for payment of health care benefits of \$300.8 million. SERS has approximately 62,000 participants currently receiving health care benefits.

**NOTE 12 - EMPLOYEE BENEFITS**

**A. Compensated Absences**

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

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

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 12 - EMPLOYEE BENEFITS** (continued)

**B. Health Care Benefits**

The Educational Service Center provides health and major medical insurance for all eligible employees through Medical Mutual of Ohio Healthcare Benefits. The Educational Service Center pays sixty-five percent of monthly premiums, or \$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 Educational Service Center also provides prescription drug insurance to its employees through the same insurance carrier.

**NOTE 13 - LONG-TERM OBLIGATIONS**

The changes in the Educational Service Center's long-term obligations during fiscal year 2004 were as follows:

	Outstanding 06/30/03	Additions	Deductions	Outstanding 06/30/04	Due in One Year
Compensated Absences	\$173,733	\$206,059	\$173,733	\$206,059	\$119,980

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

**NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS**

South Central Ohio Computer Association (SCOCA) is a jointly governed organization among public school districts and educational service centers within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross and Lawrence Counties. The organization was formed with the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts and educational service centers. The governing board of SCOCA consists of two representatives from each of the seven participating counties and one representative from the fiscal agent. All revenues are generated from an annual fee of \$2.00 per student to participating districts, annual fees for educational service centers set by the governing board, and State funding. The Educational Service Center paid \$9,178 for services provided during fiscal year 2003. 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 2004.

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

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

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 15 - INSURANCE PURCHASING POOLS**

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

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

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

**NOTE 16 - 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, 2004.

**B. Litigation**

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

Lawrence County Educational Service Center  
Notes to the Basic Financial Statements  
For the Fiscal Year Ended June 30, 2004

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**NOTE 17 - STATE SCHOOL FUNDING DECISION**

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

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

**NOTE 18 – CONTRACT COMMITMENT**

On September 18, 2003, the Educational Service Center awarded bids for the renovation of the Alternative School. The contracts awarded were:

<u>Vendor</u>	<u>Contract</u>	<u>Amount</u>	<u>Paid in 2004</u>	<u>Balance Remaining</u>
Ferguson Brothers	Plumbing	\$143,400	\$ 69,754	\$73,646
McDaniel Electric, Inc.	Electric	183,700	18,722	\$164,978
Ferguson Brothers	HVAC	37,645	-	\$37,645
		<u>\$364,745</u>	<u>\$ 88,476</u>	<u>\$276,269</u>

**NOTE 19 – INTERFUND ACTIVITY**

*Interfund Transfers*

Transfers made during the year ended June 30, 2004, were as follows:

<u>Fund</u>	<u>Transfer From</u>	<u>Transfer To</u>
Major Fund:		
General	\$39,953	\$3,250
Other Governmental Funds	3,250	39,953
Total	<u>\$43,203</u>	<u>\$43,203</u>

The transfers were made from the General Fund (a major fund) to the other governmental funds to provide support for operating activities of those funds. A transfer was made from the SchoolNet capital project fund to the general fund for the remainder of the grant money and to close out the fund.

**BALESTRA, HARR & SCHERER, CPAs, INC.**

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Members of the Board  
Lawrence County Educational Service Center  
111 South 4<sup>th</sup> Street  
Ironton, Ohio 45638

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lawrence County Educational Service Center, Lawrence County, Ohio (the Center), as of and for the year ended June 30, 2004 and have issued our report thereon dated May 31, 2005, wherein we noted the Center adopted Governmental Accounting Standards Board Statement numbers 34, 37, 38, and Interpretation 6. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Center in a separate letter dated May 31, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the Center in a separate letter dated May 31, 2005.

Lawrence County Educational Service Center  
Lawrence County

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Page 2

This report is intended 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 cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.

May 31, 2005



**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER  
LAWRENCE COUNTY  
JUNE 30, 2004**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
REQURED BY GAGAS**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2003-001	Budgetary control deficiencies	Yes	Fully Corrected.
2003-002	Lack of internal control over service organization.	Yes	Fully Corrected.
2003-003	Finding for recovery repaid under audit.	Yes	Repaid in prior audit





**Auditor of State  
Betty Montgomery**

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P.O. Box 1140  
Columbus, Ohio 43216-1140  
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Facsimile 614-466-4490

**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER**

**LAWRENCE COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
JUNE 28, 2005**