



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY

REGULAR AUDIT

For the Year Ended June 30, 2012
Fiscal Year Audited Under GAGAS: 2012



Dave Yost • Auditor of State

Members of the Governing Board
Lawrence County Educational Service Center
111 South Fourth Street
Ironton, Ohio 45638

We have reviewed the *Independent Auditor's Report* of the Lawrence County Educational Service Center, Lawrence County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2011 through June 30, 2012. 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 black ink that reads "Dave Yost".

Dave Yost
Auditor of State

February 6, 2013

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**LAWRENCE COUNTY EDUCATIONAL SERVICE CENTER
LAWRENCE COUNTY**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Independent Auditor's Report

Members of the Governing Board
Lawrence County Educational Service Center
111 South Fourth 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, Lawrence County, (the Center) as of and for the year ended June 30, 2012, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Lawrence County Educational Service Center, Lawrence County, Ohio, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance, and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The budgetary comparison schedules and notes to the budgetary comparison schedules provide additional analysis and are not a required part of the basic financial statements. We did not subject the budgetary comparison schedules or notes to the budgetary comparison schedules to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or any other assurance on them.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
December 10, 2012

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

The discussion and analysis of the Lawrence County Educational Service Center's financial performance provides an overall review of the Educational Service Center's financial activities for the fiscal year ended June 30, 2012. 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 2012 are as follows:

- Net assets of governmental activities increased \$311,661.
- General revenues accounted for \$443,611 in revenue or 18% of all revenues. Program specific revenues in the form of charges for services, grants, and contributions accounted for \$1,956,865 or 82% of total revenues of \$2,400,476.
- The Educational Service Center had \$2,088,815 in expenses related to governmental activities; 94% of these expenses were offset by program revenues.
- The Educational Service Center's governmental funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$2,400,476 and expenditures of \$2,096,094.

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.

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 2012?" 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.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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 Center has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the Educational Service Center's facility conditions, required educational programs, and other factors.

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

Reporting the Educational Service Center's Most Significant Funds

Fund Financial Statements

The analysis of the Educational Service Center's major fund begins on page 7. Fund financial statements provide detailed information about the Educational Service Center's major fund. The Educational Service Center uses a number of funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Educational Service Center's most significant funds. The Educational Service Center's major governmental funds are the General Fund and the Other State Grants Special Revenue Fund.

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

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

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

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 Educational Service Center's net assets for 2012 as compared to 2011.

Table 1
Net Assets

	Governmental Activities	
	2012	2011
Assets		
Current and Other Assets	\$ 1,054,417	\$ 707,369
Capital Assets, Net	27,825	12,883
Total Assets	<u>1,082,242</u>	<u>720,252</u>
Liabilities		
Long-Term Liabilities	127,335	119,672
Current and Other Liabilities	101,572	58,906
Total Liabilities	<u>228,907</u>	<u>178,578</u>
Net Assets		
Invested in Capital Assets	27,825	12,883
Restricted	31,698	42,541
Unrestricted	793,812	486,250
Total Net Assets	<u>\$ 853,335</u>	<u>\$ 541,674</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2012, the Educational Service Center's assets exceeded liabilities by \$853,335. Current and other assets increased due to an increase to cash on hand at year. Capital assets, net increased primarily due to current year additions exceeding current year depreciation. Long-term liabilities increased due to higher compensated absences balances at fiscal year end. Current and other liabilities increased due to increases in accrued wages and benefits.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2012 as compared to 2011.

Table 2
Changes in Net Assets

	Governmental Activities	
	2012	2011
Revenues		
Program Revenues		
Charges for Services	\$ 1,777,775	\$ 1,356,809
Operating Grants and Contributions	179,090	163,936
Total Program Revenues	<u>1,956,865</u>	<u>1,520,745</u>
General Revenues		
Grants and Entitlements, Not Restricted	383,382	310,765
Investment Earnings	1,063	-
Miscellaneous	59,166	45,289
Total General Revenues	<u>443,611</u>	<u>356,054</u>
Total Revenues	<u>2,400,476</u>	<u>1,876,799</u>
Program Expenses		
Instruction:		
Regular	215,977	155,934
Special	282,676	20,000
Support Services:		
Pupils	439,668	420,051
Instructional Staff	506,187	304,640
Board of Education	60,583	53,845
Administration	213,090	209,504
Fiscal	161,035	152,592
Operation and Maintenance of Plant	20,078	23,556
Central	189,521	159,399
Total Expenses	<u>2,088,815</u>	<u>1,499,521</u>
Increase/(Decrease) in Net Assets	311,661	377,278
Net Assets, Beginning of Year	541,674	164,396
Net Assets, End of Year	<u>\$ 853,335</u>	<u>\$ 541,674</u>

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. Revenue from charges for services and operating grants and contributions increased during fiscal year 2012. Charges for services increased due to additional services provided to the local districts. General revenue grants and entitlements increased due to the increase to contract services received through state foundation payments.

Total expenses increased from 2011 to 2012. The largest expenses of the Educational Service Center are for support services, which totaled \$1,590,162 or 76% of total governmental expenses for fiscal year 2012. Special instruction and instructional staff increased due to additional services being provided and additional employees being hired. Fluctuations for expenses are directly related to the needs of the Center's member School Districts.

Total governmental expenses of \$2,088,815 were offset by program revenues of \$1,956,865 and general revenues of \$443,611. Program revenues supported 94% of the total governmental expenses.

Lawrence County Educational Service Center

Management's Discussion and Analysis

For the Fiscal Year Ended June 30, 2012

Unaudited

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

Table 3
Governmental Activities

	<u>Total Cost of Services 2012</u>	<u>Net Cost of Services 2012</u>	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>
Program Expenses				
Instruction:				
Regular	\$ 215,977	\$ 8,555	\$ 155,934	\$ (49,885)
Special	282,676	14,783	20,000	1,030
Support Services:				
Pupils	439,668	32,041	420,051	(4,795)
Instructional Staff	506,187	24,967	304,640	9,980
Board of Education	60,583	4,982	53,845	1,995
Administration	213,090	16,991	209,504	6,890
Fiscal	161,035	12,549	152,592	7,159
Operation and Maintenance of Plant	20,078	2,083	23,556	2,057
Central	189,521	14,999	159,399	4,345
Totals	<u>\$ 2,088,815</u>	<u>\$ 131,950</u>	<u>\$ 1,499,521</u>	<u>\$ (21,224)</u>

THE EDUCATIONAL SERVICE CENTER'S FUNDS

The Educational Service Center has two major funds which are the General Fund and the Other State Grants Special Revenue Fund.

The General Fund had \$2,128,549 in revenues and \$1,813,324 in expenditures. Charges for services increased due to an increase in services provided to the Educational Service Center's local districts. The net change in fund balance for the General Fund was an increase of \$315,225.

The Other State Grants Fund had \$86,096 in revenues and \$86,114 in expenditures. The net change in fund balance for the Other State Grants Fund was a decrease of \$18.

Lawrence County Educational Service Center
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2012
Unaudited

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At the end of fiscal year 2012, the Educational Service Center had \$27,825 invested in its furniture, fixtures, and equipment. For additional information on capital assets, see Note 5 to the basic financial statements. Table 4 shows fiscal year 2012 balances compared to 2011.

Table 4
Capital Assets
(Net of Depreciation)

	Governmental Activities	
	2012	2011
Furniture, Fixtures and Equipment	<u>\$27,825</u>	<u>\$12,883</u>
Totals	<u><u>\$27,825</u></u>	<u><u>\$12,883</u></u>

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

DEBT

The Educational Service Center did not have any debt outstanding as of June 30, 2012. For information regarding other long term obligations, please see Note 9 to the basic financial statements.

CONTACTING THE EDUCATIONAL SERVICE CENTER'S FINANCIAL MANAGEMENT

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

Lawrence County Educational Service Center

Statement of Net Assets

As of June 30, 2012

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 986,291
Intergovernmental Receivable	68,126
Depreciable Capital Assets, Net	<u>27,825</u>
<i>Total Assets</i>	<u>1,082,242</u>
Liabilities	
Accounts Payable	18,639
Accrued Wages and Benefits Payable	48,724
Intergovernmental Payable	34,209
Long-Term Liabilities:	
Due within One Year	21,994
Due in More than One Year	<u>105,341</u>
<i>Total Liabilities</i>	<u>228,907</u>
Net Assets	
Invested in Capital Assets	27,825
Restricted for:	
Other Purposes	31,698
Unrestricted	<u>793,812</u>
<i>Total Net Assets</i>	<u><u>\$ 853,335</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, 2012

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction:				
Regular	\$ 215,977	\$ 104,420	\$ 103,002	\$ (8,555)
Special	282,676	261,587	6,306	(14,783)
Support Services:				
Pupils	439,668	374,157	33,470	(32,041)
Instructional Staff	506,187	468,563	12,657	(24,967)
Board of Education	60,583	54,292	1,309	(4,982)
Administration	213,090	188,692	7,407	(16,991)
Fiscal	161,035	144,061	4,425	(12,549)
Operation and Maintenance of Plant	20,078	13,716	4,279	(2,083)
Central	189,521	168,287	6,235	(14,999)
Totals	\$ 2,088,815	\$ 1,777,775	\$ 179,090	(131,950)
General Revenues				
Grants and Entitlements not Restricted to Specific Programs				383,382
Investment Earnings				1,063
Miscellaneous				59,166
<i>Total General Revenues</i>				<u>443,611</u>
<i>Change in Net Assets</i>				311,661
<i>Net Assets at Beginning of Year</i>				<u>541,674</u>
<i>Net Assets at End of Year</i>				<u><u>\$ 853,335</u></u>

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center

Balance Sheet

Governmental Funds

As of June 30, 2012

	General Fund	Other State Grants Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 950,183	\$ -	\$ 36,108	\$ 986,291
Receivables:				
Intergovernmental	7,149	60,977	-	68,126
Interfund	60,995	-	-	60,995
<i>Total Assets</i>	<u>\$ 1,018,327</u>	<u>\$ 60,977</u>	<u>\$ 36,108</u>	<u>\$ 1,115,412</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ 18,639	\$ -	\$ -	\$ 18,639
Accrued Wages and Benefits Payable	45,447	-	3,277	48,724
Intergovernmental Payable	33,094	-	1,115	34,209
Interfund Payable	-	60,995	-	60,995
<i>Total Liabilities</i>	<u>97,180</u>	<u>60,995</u>	<u>4,392</u>	<u>162,567</u>
Fund Balances				
Restricted	-	-	31,716	31,716
Assigned	54,146	-	-	54,146
Unassigned	867,001	(18)	-	866,983
<i>Total Fund Balances</i>	<u>921,147</u>	<u>(18)</u>	<u>31,716</u>	<u>952,845</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,018,327</u>	<u>\$ 60,977</u>	<u>\$ 36,108</u>	<u>\$ 1,115,412</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
As of June 30, 2012*

Total Governmental Fund Balances	\$ 952,845
<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.	27,825
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: Compensated Absences Payable	<u>(127,335)</u>
Net Assets of Governmental Activities	<u><u>\$ 853,335</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, 2012

	General Fund	Other State Grants Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 423,118	\$ 86,096	\$ 53,258	\$ 562,472
Interest	1,063	-	-	1,063
Charges for Services	437,941	-	132,573	570,514
Contract Services	1,205,371	-	-	1,205,371
Rent	1,890	-	-	1,890
Miscellaneous	59,166	-	-	59,166
<i>Total Revenues</i>	<u>2,128,549</u>	<u>86,096</u>	<u>185,831</u>	<u>2,400,476</u>
Expenditures				
Current:				
Instruction:				
Regular	6,536	25,300	183,351	215,187
Special	289,368	-	-	289,368
Support Services:				
Pupils	386,130	50,585	-	436,715
Instructional Staff	511,020	2,700	-	513,720
Board of Education	60,583	-	-	60,583
Administration	205,162	5,429	582	211,173
Fiscal	159,651	2,100	-	161,751
Operation and Maintenance of Plant	11,246	-	8,212	19,458
Central	183,628	-	4,511	188,139
<i>Total Expenditures</i>	<u>1,813,324</u>	<u>86,114</u>	<u>196,656</u>	<u>2,096,094</u>
<i>Net Change in Fund Balances</i>	315,225	(18)	(10,825)	304,382
<i>Fund Balances at Beginning of Year</i>	<u>605,922</u>	<u>-</u>	<u>42,541</u>	<u>648,463</u>
<i>Fund Balances at End of Year</i>	<u>\$ 921,147</u>	<u>\$ (18)</u>	<u>\$ 31,716</u>	<u>\$ 952,845</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, 2012*

Net Change in Fund Balances - Total Governmental Funds \$ 304,382

*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 asset additions exceeded depreciation in the current period:

Capital Asset Additions	25,049	
Depreciation Expense	<u>(10,107)</u>	14,942

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:

Increase in Compensated Absences		<u>(7,663)</u>
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Change in Net Assets of Governmental Activities \$ 311,661

See accompanying notes to the basic financial statements.

Lawrence County Educational Service Center
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2012

ASSETS:	
Equity in Pooled Cash and Cash Equivalents	<u>\$ 3,002,311</u>
<i>Total Assets</i>	<u><u>\$ 3,002,311</u></u>
LIABILITIES:	
Undistributed Monies	<u>\$ 3,002,311</u>
<i>Total Liabilities</i>	<u><u>\$ 3,002,311</u></u>

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, 2012

NOTE 1 - REPORTING ENTITY

The Lawrence County Educational Service Center (the “Educational Service Center”) is located in Ironton, Ohio, the county seat. The Educational Service Center provides supervisory, special education, administrative, and other services to Dawson-Bryant, Fairland, Rock Hill, South Point, and Symmes Valley Local School Districts, Ironton City School District, Chesapeake-Union Exempted Village School District, as well as the Collins Career Center. The Educational Service Center furnishes leadership and consulting services designed to strengthen the school districts in areas they are unable to finance or staff independently.

The Lawrence County Educational Service Center operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The Educational Service Center has 15 support staff employees, 22 certified administrators and 2 interns that provide services to the school districts.

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

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

The Educational Service Center participates in two organizations which are defined as jointly governed organizations. These are the South Central Ohio Computer Association and the Collins Career Center. Information about these organizations is presented in Note 10 to the basic financial statements.

The Center serves as the fiscal agent for the Lawrence County Schools Council of Governments Health Benefits Program. Accordingly, this organization is presented as an agency fund within the Center's financial statements.

The Educational Service Center participates in three organizations of which two are defined as insurance purchasing pools and one as a shared risk pool: the Ohio School Boards Association Workers' Compensation Group Rating Program, the Ohio School Plan and the Lawrence County Schools Council of Governments Health Benefits Program. Information about these organizations is presented in Note 11 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

Fund Financial Statements:

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

B. Fund Accounting

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

Governmental Funds

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

General Fund

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

Other State Grant Fund

The Other State Grant Fund is used to account for various monies received from state agencies which are not classified elsewhere. A separate special cost center is used for each grant and approved by the Auditor of State.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fiduciary Fund Type

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

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 except for fiduciary funds. 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.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. The fund financial statements are prepared using the modified accrual basis of accounting for governmental funds and the accrual basis of accounting for fiduciary funds. Differences in the accrual and modified accrual bases of accounting arise in the recognition of revenue, the recording of 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 accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Measurable" means the amount of the transaction can be determined, and "available" means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Educational Service Center, available means expected to be received within sixty days of year-end.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Deferred 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.

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

E. Cash and Cash Equivalents

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

During fiscal year 2012, investments were limited to certificates of deposit which are reported at cost.

For presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Educational Service Center are considered to be cash equivalents.

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, 2012

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 capital assets are recorded at their fair market values as of the date received. The Educational Service Center maintains a capitalization threshold of five hundred dollars. The Educational Service Center does not possess any infrastructure.

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

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

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

G. Interfund Balances

Receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental activities column of the statement of net 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 10 years of current service with the Educational Service Center.

I. Accrued Liabilities and Long-Term Obligations

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Transactions

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

K. Fund Balance

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

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

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

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

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

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

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

L. Estimates

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. 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.

Of the Educational Service Center's \$31,698 of restricted net assets, none is restricted by enabling legislation.

NOTE 3 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

1. United States treasury notes, bills, bonds, or other obligations of or securities issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations of or securities issued by any federal government agency or instrumentality, including, but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Interim deposits in the eligible institutions applying for interim money as provided in section 135.08 of the Revised Code;

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Certain bankers' acceptances for a period not to exceed one hundred eighty days and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time;
9. Linked deposits as authorized by ordinance adopted pursuant to section 135.80 of the Revised Code;
10. Commercial paper notes issued by any entity that is defined in division (D) of section 1705.01 of the Revised Code and has assets exceeding five hundred million dollars, and to which notes are rated at the time of purchase in the highest classification established by at least two standard rating services; the aggregate value of the notes does not exceed ten percent of the aggregate value of the outstanding commercial paper of the issuing corporation; the notes mature no later than one hundred eighty days after purchase; and
11. Bankers' acceptances of banks that are members of the federal deposit insurance corporation to which obligations both the following apply: obligations are eligible for purchase by the federal reserve system and the obligations mature no later than one hundred eighty days after purchase.

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

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

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

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

As of June 30, 2012, the Educational Service Center's bank balance of \$4,064,632 is either covered by FDIC or collateralized by the financial institution's public entity deposit pool in the manner described above.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 4 - STATE FUNDING

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

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

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

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

NOTE 5 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2012 follows:

	<u>Balance at 6/30/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2012</u>
Capital Assets:				
Depreciable Capital Assets:				
Furniture, Fixtures, and Equipment	138,609	25,049	(12,888)	150,770
Total Depreciable Capital Assets	<u>138,609</u>	<u>25,049</u>	<u>(12,888)</u>	<u>150,770</u>
Less Accumulated Depreciation:				
Furniture, Fixtures, and Equipment	(125,726)	(10,107)	12,888	(122,945)
Total Accumulated Depreciation	<u>(125,726)</u>	<u>(10,107)</u>	<u>12,888</u>	<u>(122,945)</u>
Total Capital Assets being Depreciated, Net	<u>12,883</u>	<u>14,942</u>	<u>-</u>	<u>27,825</u>
Capital Assets, Net	<u>\$ 12,883</u>	<u>\$ 14,942</u>	<u>\$ -</u>	<u>\$ 27,825</u>

*Depreciation expense was charged to governmental functions as follows:

Regular Instruction	\$ 790
Special Instruction	1,502
Support Services:	
Pupils	1,378
Instructional Staff	3,552
Administration	883
Operation and Maintenance of Plant	620
Central	<u>1,382</u>
Total Depreciation Expense	<u>\$ 10,107</u>

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 6 - RISK MANAGEMENT

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

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

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

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

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

For fiscal year 2012, the Educational Service Center participated in the Ohio School Boards Association Workers' Compensation Group Rating Program (GRP), an insurance purchasing pool (Note 11). 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 ensures 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 Council of Governmental Health Benefits Program (Council), a public entity shared risk pool (Note 11), consisting of government entities within the County offering medical insurance to their employees. Monthly premiums are paid to the Lawrence County Educational Service Center as fiscal agent, who in turn pays the claims on the government entity's behalf. The Council is responsible for the management and operations of the program. Upon termination of the Council, for any reason, the Council shall have no obligation under the plan beyond paying the difference between the claims incurred (even though later filed) and expenses of the Plan due up to the date of termination plus extended benefits, if any, provided under the Plan. Such claims and expenses shall be paid from the fund of the Council.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 7 - DEFINED BENEFIT PENSION PLANS AND OTHER POSTEMPLOYMENT BENEFITS

A. Defined Benefit Pension Plans

School Employees Retirement System

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

Plan members are required to contribute 10 percent of their annual covered salary and the Educational Service Center is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The Retirement Board acting with the advice of the actuary, allocates the employer contribution rate among four of the funds (Pension Trust Fund, Death Benefit Fund, Medicare B Fund, and Health Care Fund) of the System. For fiscal year 2012, the allocation to pension and death benefits is 12.70 percent. The remaining 1.30 percent of the 14 percent employer contribution rate is allocated to the Health Care and Medicare B Fund. The Educational Service Center's contributions to SERS for the fiscal years ended June 30, 2012, 2011, and 2010 were \$34,478, \$39,655, and \$31,128; 95% has been contributed for fiscal year 2012 and 100% for the fiscal years 2011 and 2010. \$1,893 represents the unpaid contribution for fiscal year 2012 and is recorded as a liability within the respective funds.

State Teachers Retirement System

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

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

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

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 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 a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

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

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

Benefits are increased annually by 3% of the original base amount for DB Plan participants.

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

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2012, plan members were required to contribute 10 percent of their annual covered salaries. The Educational Service Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. The Educational Service Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2012, 2011, and 2010 were \$140,283, \$96,189, and \$85,742, respectively; 86% has been contributed for the fiscal year 2012 and 100% for the fiscal years 2011 and 2010. \$19,299 represents the unpaid contribution for fiscal year 2012 and is recorded as a liability with the respective funds.

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

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2012, no members of the Board of Education had elected Social Security.

B. Postemployment Benefits

State Teachers Retirement System

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

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

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

Under Ohio law, funding for post-employment health care may be deducted from employer contributions. Of the 14 percent contribution rate, 1 percent of covered payroll was allocated to post-employment health care for the years ended June 30, 2012, 2011, and 2010. For the Educational Service Center, these amounts equaled \$10,219, \$7,318, and \$7,043 for fiscal years 2012, 2011, and 2010, respectively, which were equal to the required allocation for each year.

School Employees Retirement System

Postemployment Benefits

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

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

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

Medicare Part B Plan

The Medicare B plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Ohio Revised Code 3309.69. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a monthly reimbursement from SERS. The reimbursement amount is limited by statute to the lesser of the January 1, 1999 Medicare Part B premium or the current premium. The Medicare Part B premium for calendar year 2012 was \$99.90 for most participants, but could be as high as \$319.70 per month depending on their income. SERS' reimbursement to retirees was \$45.50.

The Retirement Board, acting with the advice of the actuary, allocates a portion of the current employer contribution rate to the Medicare B Fund. For fiscal years 2012, 2011, and 2010, the actuarially required allocations were 0.75 percent, 0.76 percent and 0.76 percent, respectively. For the Educational Service Center, contributions for the fiscal years ended June 30, 2012, 2011, and 2010 were \$2,694, \$2,458, and \$1,739, respectively, which were equal to the required allocation for each year.

Health Care Plan

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

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

The Health Care Fund was established under, and is administered in accordance with, Internal Revenue Code 105(e). Each year after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer 14 percent contribution to the Health Care Fund. At June 30, 2012, 2011, and 2010, the health care allocations were 0.55 percent, 1.43 percent, and 0.46 percent, respectively. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned. Statutes provide that no employer shall pay a health care surcharge greater than 2 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the total statewide SERS-covered payroll for the health care surcharge. The surcharge, added to the unallocated portion of the 14 percent employer contribution rate is the total amount assigned to the Health Care Fund. For fiscal year 2012, the minimum compensation level was established at \$35,800. For the Educational Service Center, the amounts assigned to health care, including the surcharge, during the 2012, 2011, and 2010 fiscal years equaled \$5,893, \$7,552, and \$4,607, respectively, which equaled the required allocation for each year.

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

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

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 8 - EMPLOYEE BENEFITS

A. Compensated Absences

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

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

B. Health Care Benefits

The Educational Service Center provides health and major medical insurance for all eligible employees through the Lawrence County Schools Council of Governments Health Benefits Program. The Educational Service Center pays seventy-five percent of monthly premiums, or \$1,185.46, for family coverage and seventy-five percent of monthly premiums, or \$479.94 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 9 - LONG-TERM OBLIGATIONS

The changes in the Educational Service Center's long-term obligations during fiscal year 2012 were as follows:

	<u>06/30/11</u>	<u>Additions</u>	<u>Deductions</u>	<u>06/30/12</u>	<u>One Year</u>
Compensated Absences	\$119,672	\$86,936	\$79,273	\$127,335	\$21,994

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

NOTE 10 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association (SCOCA) – SCOCA is a jointly governed organization among public school districts and educational service centers within the boundaries of Gallia, Pickaway, Vinton, Jackson, 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 eleven 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 \$31,367 for services provided during fiscal year 2012. To obtain financial information write to the Pike County Joint Vocational School District, P.O. Box 577, 23365 State Route 124, Piketon, Ohio 45661.

Collins Career Center – The Collins Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board, consisting of one representative from Chesapeake Union Exempted Village School District, two from the Ironton City School District, and two from the Lawrence County Educational Service Center, which possesses its own budgeting and taxing authority. To obtain financial information write to the Collins Career Center, 11627 State Route 243, Chesapeake, Ohio 45619. The Educational Service Center made no payments to the Collins Career Center in fiscal year 2012.

Lawrence County Educational Service Center

Notes to the Basic Financial Statements

For the Fiscal Year Ended June 30, 2012

NOTE 11 - INSURANCE PURCHASING POOLS

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

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

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

NOTE 12 - CONTINGENCIES

A. Grants

The Auditor of State is currently performing a statewide review of supporting documentation for student attendance data reported to the Ohio Department of Education. The results of this review are still pending and will be reported separately to the Ohio Department of Education at a later date.

The Educational Service Center received financial assistance from federal and State agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. This also encompasses the Auditor of State's ongoing review of student attendance data. However, the effect of any such disallowed claims on the overall financial position of the Educational Service Center at June 30, 2012, if applicable, cannot be determined at this time.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 12 – CONTINGENCIES (continued)

B. Litigation

The Educational Service Center is party to legal proceedings. However, the Educational Service Center is of the opinion that the ultimate disposition of claims will not have a material adverse effect, if any, on the financial condition of the Educational Service Center.

NOTE 13 - RECEIVABLES

Receivables at June 30, 2012 consisted of interfund receivables, and intergovernmental grants. All receivables are considered collectible in full due to the stable condition of State programs. A summary of the principal items of intergovernmental receivables follows:

Major Funds:	
General Fund	\$ 7,149
Other State Grants Fund	60,977
	<u>\$ 68,126</u>

NOTE 14 - INTERFUND ACTIVITY

Interfund Balances

Interfund balances at June 30, 2012 consist of the following individual fund receivables and payables, which are expected to be repaid during fiscal year 2013:

	<u>Receivable</u>	<u>Payable</u>
<i>Major Funds:</i>		
General	\$60,995	\$0
Other State Grants Fund	0	60,995
Total	<u>\$60,995</u>	<u>\$60,995</u>

The amount due to the General Fund is a result of the Educational Service Center using unrestricted funds to support grant funds whose grants operate on a reimbursement basis. The General Fund will be reimbursed when funds become available in the Other State Grants fund.

Lawrence County Educational Service Center

*Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2012*

NOTE 15 – FUND BALANCES

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

Fund Balances	General Fund	Other State Grants Fund	Other Governmental Funds	Total Governmental Funds
Restricted for				
Other Purposes	\$0	\$0	\$31,716	\$31,716
Total Restricted	<u>0</u>	<u>0</u>	<u>31,716</u>	<u>31,716</u>
Assigned to				
Other Purposes	54,146	0	0	54,146
Unassigned (Deficit)	<u>867,001</u>	<u>(18)</u>	<u>0</u>	<u>866,983</u>
Total Fund Balances	<u><u>\$921,147</u></u>	<u><u>(\$18)</u></u>	<u><u>\$31,716</u></u>	<u><u>\$952,845</u></u>

NOTE 16 – SUBSEQUENT EVENTS

South Central Ohio Computer Association Council of Governments – Effective July 1, 2012, the School District is a participant in the South Central Ohio Computer Association Council of Governments (SCOCACoG) which is a computer consortium formerly known as South Central Ohio Computer Association (SCOCA). SCOCACoG is a council of governments providing computer services to its members of public school districts within the boundaries of Highland, Adams, Pickaway, Gallia, Pike, Scioto, Brown, Ross, Jackson, Vinton, and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts.

NOTE 17 – ACCOUNTABILITY

At June 30, 2012, the Other State Grants Fund had a fund balance deficit of \$18, which was created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Lawrence County Educational Service Center
*Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget (Budget Basis) and Actual
General Fund
For the Fiscal Year Ended June 30, 2012*

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
Revenues				
Intergovernmental	\$ 251,095	\$ 376,534	\$ 327,566	\$ (48,968)
Interest	815	1,222	1,063	(159)
Rent	1,449	2,173	1,890	(283)
Charges for Services	425,909	638,680	555,620	(83,060)
Contract Services	923,973	1,385,563	1,205,371	(180,192)
Miscellaneous	45,354	68,010	59,166	(8,844)
<i>Total Revenues</i>	1,648,595	2,472,182	2,150,676	(321,506)
Expenditures				
Current:				
Instruction:				
Regular	8,561	8,561	10,998	(2,437)
Special	238,727	238,727	306,681	(67,954)
Support Services:				
Pupils	301,239	301,239	386,987	(85,748)
Instructional Staff	389,809	389,809	500,768	(110,959)
Board of Education	47,434	47,434	60,936	(13,502)
Administration	164,373	164,373	211,162	(46,789)
Fiscal	128,711	128,711	165,348	(36,637)
Operation and Maintenance of Plant	9,237	9,237	11,866	(2,629)
Central	129,965	129,965	166,959	(36,994)
<i>Total Expenditures</i>	1,418,056	1,418,056	1,821,705	(403,649)
<i>Excess of Revenues Over Expenditures</i>	230,539	1,054,126	328,971	(725,155)
Other Financing Sources (Uses)				
Transfers Out	(10,418)	(10,418)	-	10,418
<i>Total Other Financing Sources (Uses)</i>	(10,418)	(10,418)	-	10,418
<i>Net Change in Fund Balance</i>	220,121	1,043,708	328,971	(714,737)
<i>Fund Balance at Beginning of Year</i>	611,844	611,844	611,844	-
<i>Prior Year Encumbrances Appropriated</i>	16,217	16,217	16,217	-
<i>Fund Balance at End of Year</i>	\$ 848,182	\$ 1,671,769	\$ 957,032	\$ (714,737)

See accompanying notes to the supplementary information.

Lawrence County Educational Service Center
*Schedule of Revenues, Expenditures and Changes in
Fund Balance - Budget (Budget Basis) and Actual
Other State Grants Fund
For the Fiscal Year Ended June 30, 2012*

	Budget Amounts		Actual	Variance With Final Budget Over/(Under)
	Original	Final		
Revenues				
Intergovernmental	\$ 16,050	\$ 48,145	\$ 48,145	\$ -
<i>Total Revenues</i>	16,050	48,145	48,145	-
Expenditures				
Current:				
Instruction:				
Regular	17,988	17,988	25,300	(7,312)
Support Services:				
Pupils	35,966	35,966	50,585	(14,619)
Instructional Staff	1,920	1,920	2,700	(780)
Administration	3,860	3,860	5,429	(1,569)
Fiscal	1,493	1,493	2,100	(607)
<i>Total Expenditures</i>	61,227	61,227	86,114	(24,887)
<i>Net Change in Fund Balance</i>	(45,177)	(13,082)	(37,969)	(24,887)
<i>Fund Balance at Beginning of Year</i>	(23,026)	(23,026)	(23,026)	-
<i>Fund Balance at End of Year</i>	<u>\$ (68,203)</u>	<u>\$ (36,108)</u>	<u>\$ (60,995)</u>	<u>\$ (24,887)</u>

See accompanying notes to the supplementary information.

Lawrence County Educational Service Center

Notes to the Supplementary Information

For the Fiscal Year Ended June 30, 2012

NOTE 1 - BUDGETARY PROCESS

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

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

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

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

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the Educational Service Center is reporting financial position, results of operations, and changes in fund balances on the basis of generally accepted accounting principles (GAAP), the budgetary basis is based upon the accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedule of revenues, expenditures and changes in fund balance – budget (budget basis) and actual – for the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

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

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

Lawrence County Educational Service Center

Notes to the Supplementary Information

For the Fiscal Year Ended June 30, 2012

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis schedules for the General Fund and the Other State Grants Special Revenue Fund.

	<u>Net Changes in Fund Balances</u>	
	<u>General</u>	<u>Other State</u>
GAAP Basis	\$ 315,225	\$ (18)
Adjustments:		
Revenue Accruals	22,186	(37,951)
Expenditure Accruals	45,383	-
Perspective Difference:		
Activity of Funds Reclassified for Cash Reporting Purposes	323	-
Encumbrances	(54,146)	-
Budget Basis	<u>\$ 328,971</u>	<u>\$ (37,969)</u>



Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards*

Members of the Governing Board
Lawrence County Educational Service Center
111 South Fourth 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, 2012, which collectively comprise the Center's basic financial statements and have issued our report thereon dated December 10, 2012. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the Center's internal controls over financial reporting. Accordingly, we have not opined on the effectiveness of the Center's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Center's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Center's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Members of the Governing Board
Lawrence County Educational Service Center
Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Required by Government Auditing Standards
Page 2

Compliance and Other Matters (Continued)

We intend this report solely for the information and use of management, the Governing Board and others within the Center. We intend it for no one other than these specified parties.

Balestra, Harr & Scherer, CPAs

Balestra, Harr & Scherer, CPAs, Inc.
December 10, 2012



Dave Yost • Auditor of State

LAWRENCE COUNTY EDUCATION SERVICE CENTER

LAWRENCE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
FEBRUARY 19, 2013