



**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDING JUNE 30, 2010



Dave Yost • Auditor of State

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

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INDEPENDENT ACCOUNTANTS' REPORT

Lucas County Educational Service Center
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center, Lucas County, (the Center), as of and for the year ended June 30, 2010, 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 Lucas County Educational Service Center, Lucas County, Ohio, as of June 30, 2010, 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 February 2, 2011, 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 comparisons for the General, Auxiliary Service, Community School Operations, and Other Grants Funds provides additional analysis and are not a required part of the basic financial statements. The schedule of federal awards receipts and expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The budgetary comparisons and the schedule of federal awards receipts and expenditures are management's responsibility, and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. These budgetary comparisons and schedule were subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

February 2, 2011

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The discussion and analysis of the Lucas County Educational Service Center's (the "Center") financial performance provides an overall review of the Center's financial activities for the fiscal year ended June 30, 2010. The intent of this discussion and analysis is to look at the Center's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Center's financial performance.

Financial Highlights

Key financial highlights for 2010 are as follows:

- In total, net assets of governmental activities decreased \$627,426 which represents a 7.97% decrease from 2009.
- General revenues accounted for \$3,107,691 in revenue or 11.87% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$23,083,793 or 88.13% of total revenues of \$26,191,484.
- The Center had \$26,818,910 in expenses related to governmental activities; \$23,083,793 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily unrestricted grants and entitlements) of \$3,107,691 were not adequate to provide for these programs.
- The Center's major governmental funds are the general fund, the auxiliary services fund, the community school operations fund and the other grants fund. The general fund had \$16,272,276 in revenues and other financing sources and \$17,406,137 in expenditures and other financing uses. During fiscal year 2010, the general fund's fund balance decreased \$1,133,861 from \$3,336,720 to \$2,202,859.
- The auxiliary services fund had \$3,279,555 in revenues and other financing sources and \$3,240,700 in expenditures.
- The community school operations fund had \$3,381,195 in revenues and other financing sources and \$3,497,679 in expenditures and other financing uses.
- The other grants fund had \$914,848 in revenues and other financing sources and \$949,288 in expenditures and other financing uses.

Using these Basic Financial Statements

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 Center as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The *statement of net assets* and *statement of activities* provide information about the activities of the whole Center, presenting both an aggregate view of the 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 Center's most significant funds with all other nonmajor funds presented in total in one column. In the case of the Center, the general fund, the auxiliary services fund, the community school operations fund and the other grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

Reporting the Center as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the Center to provide programs and activities, the view of the Center as a whole looks at all financial transactions and asks the question, "How did we do financially during 2010?" The statement of net assets and the statement of activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the Center's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Center as a whole, the *financial position* of the 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 Center's facility conditions, required educational programs and other factors.

In the statement of net assets and the statement of activities, the governmental activities include the Center's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, and food service operations.

Reporting the Center's Most Significant Funds

Fund Financial Statements

Fund financial reports provide detailed information about the Center's major funds. The Center uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the Center's most significant funds. The Center's major governmental funds are the general fund, auxiliary services fund, community school operations fund and other grants fund.

Governmental Funds

Most of the 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 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* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the Center's general government 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. 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 basic financial statements.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Reporting the Center's Fiduciary Responsibilities

The Center acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. All of the Center's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. These activities are excluded from the Center's other financial statements because the assets cannot be utilized by the Center to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The Center as a Whole

Recall that the statement of net assets provides the perspective of the Center as a whole.

The table below provides a summary of the Center's net assets for 2010 and 2009.

	Net Assets	
	Governmental Activities 2010	Governmental Activities 2009
<u>Assets</u>		
Current and other assets	\$ 6,954,225	\$ 9,173,670
Capital assets, net	<u>3,677,061</u>	<u>2,088,447</u>
Total assets	<u>10,631,286</u>	<u>11,262,117</u>
<u>Liabilities</u>		
Current liabilities	1,722,889	1,896,499
Long-term liabilities	<u>1,660,224</u>	<u>1,490,019</u>
Total liabilities	<u>3,383,113</u>	<u>3,386,518</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,667,208	2,088,447
Restricted	2,200,569	3,112,090
Unrestricted	<u>1,380,396</u>	<u>2,675,062</u>
Total net assets	<u>\$ 7,248,173</u>	<u>\$ 7,875,599</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2010, the Center's assets exceeded liabilities by \$7,248,173. Of this total, \$1,380,396 is unrestricted in use.

At year-end, capital assets represented 34.59% of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, and furniture, fixtures and equipment and vehicles.

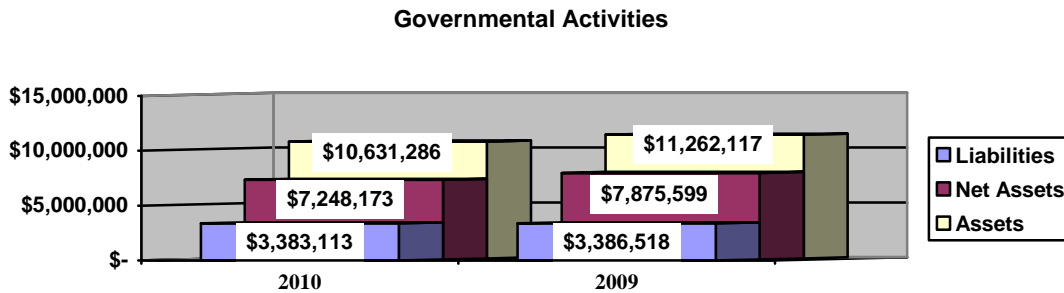
**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Capital assets, net of related debt to acquire the assets at June 30, 2010, were \$3,667,208. These capital assets are used to provide services to the students and are not available for future spending. Although the Center's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the Center's net assets, \$2,200,569, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,380,396 may be used to meet the Center's ongoing obligations to the students and creditors.

The graph below illustrates the Center's governmental activities assets, liabilities and net assets at June 30, 2010 and 2009.



The table below shows the change in net assets for fiscal year 2010 and 2009.

Change in Net Assets

	Governmental Activities 2010	Governmental Activities 2009
Revenues		
Program Revenues:		
Charges for services and sales	\$ 18,057,782	\$ 17,527,231
Operating grants and contributions	5,026,011	6,597,563
General revenues:		
Grants and entitlements	2,780,208	2,846,022
Investment earnings	72,187	98,418
Other	255,296	483,753
Total revenues	26,191,484	27,552,987

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Change in Net Assets

	<u>Governmental Activities 2010</u>	<u>Governmental Activities 2009</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 55,319	\$ 46,019
Special	6,415,718	6,322,669
Vocational	104,996	93,354
Adult/continuing	44,322	41,495
Other	114,788	
Support services:		
Pupil	5,745,174	5,815,654
Instructional staff	5,738,601	5,662,468
Board of education	23,307	36,271
Administration	2,489,404	2,652,335
Fiscal	1,172,068	1,191,807
Business	76,019	93,672
Operations and maintenance	1,017,608	1,117,224
Pupil transportation	23,452	142,944
Central	239,087	344,407
Food service operations	32,141	36,265
Other non-instructional services	3,526,599	3,619,134
Extracurricular activities	<u>307</u>	<u>2,088</u>
Total expenses	<u>26,818,910</u>	<u>27,217,806</u>
Change in net assets	(627,426)	335,181
Net assets at beginning of year	<u>7,875,599</u>	<u>7,540,418</u>
Net assets at end of year	<u>\$ 7,248,173</u>	<u>\$ 7,875,599</u>

Governmental Activities

Net assets of the Center's governmental activities decreased \$627,426. Total governmental expenses of \$26,818,910 were offset by program revenues of \$23,083,793, and general revenues of \$3,107,691. Program revenues supported 86.07% of the total governmental expenses. The decrease in net assets, revenues, and expenses is a result of a reduction in State funding in the general fund and special revenue funds.

The primary sources of revenue for governmental activities are derived from charges for services. This revenue source represents 68.95% of total governmental revenue.

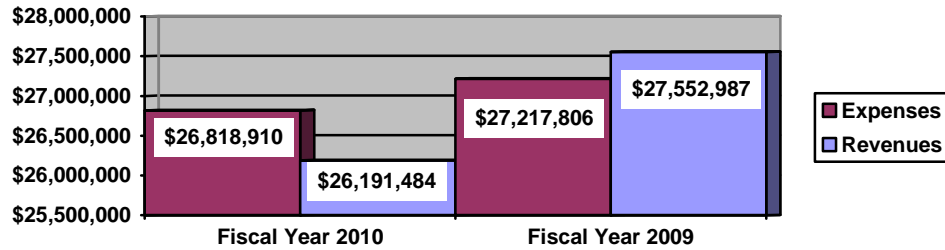
The largest expense of the Center is for support services. Support services expenses totaled \$16,524,720 or 61.62% of total governmental expenses for fiscal 2010.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2010 and 2009.

Governmental Activities - Revenues and Expenses



The statement of activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

	Total Cost of Services 2010	Net Cost of Services 2010	Total Cost of Services 2009	Net Cost of Services 2009
Program expenses				
Instruction:				
Regular	\$ 55,319	\$ 27,172	\$ 46,019	\$ 18,014
Special	6,415,718	1,454,456	6,322,669	2,102,238
Vocational	104,996	96,366	93,354	93,354
Adult/Continuing	44,322	(26,609)	41,495	(2,894)
Other	114,788	114,788		
Support services:				
Pupil	5,745,174	1,265,067	5,815,654	1,059,045
Instructional staff	5,738,601	242,076	5,662,468	(719,054)
Board of education	23,307	23,307	36,271	36,271
Administration	2,489,404	136,356	2,652,335	237,913
Fiscal	1,172,068	(148,985)	1,191,807	(125,991)
Business	76,019	76,019	93,672	93,666
Operations and maintenance	1,017,608	214,745	1,117,224	247,362
Pupil transportation	23,452	(95,443)	142,944	(53,087)
Central	239,087	174,924	344,407	(35,090)
Food service operations	32,141	(3,085)	36,265	1,953
Other non-instructional services	3,526,599	183,656	3,619,134	138,681
Extracurricular activities	307	307	2,088	631
Total expenses	<u>\$ 26,818,910</u>	<u>\$ 3,735,117</u>	<u>\$ 27,217,806</u>	<u>\$ 3,093,012</u>

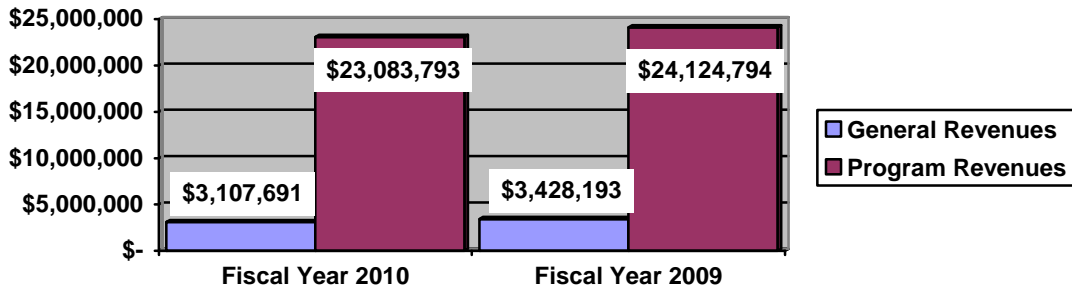
**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

For all governmental activities, program revenue support is 86.07%. The primary support of the Center is contracted fees for services provided to other school districts.

The graph below presents the Center's governmental activities revenue for fiscal years 2010 and 2009.

Governmental Activities - General and Program Revenues



The Center's Funds

The Center's governmental funds reported a combined fund balance of \$4,705,710 which is lower than last year's total of \$6,672,728. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2010 and 2009.

	Fund Balance June 30, 2010	Fund Balance June 30, 2009	Increase (Decrease)	Percentage Change
General	\$ 2,202,859	\$ 3,336,720	\$ (1,133,861)	(33.98) %
Auxiliary services	310,336	271,481	38,855	14.31 %
Community school operations	775,286	891,770	(116,484)	(13.06) %
Other grants	1,196,767	1,231,207	(34,440)	(2.80) %
Other governmental	<u>220,462</u>	<u>941,550</u>	<u>(721,088)</u>	<u>(76.59) %</u>
Total	<u>\$ 4,705,710</u>	<u>\$ 6,672,728</u>	<u>\$ (1,967,018)</u>	<u>(29.48) %</u>

An analysis of the general fund revenues and expenditures is provided in the section below. The decrease in the fund balance of the other governmental funds is due to a reduction in State funding, particularly in State Support Team Region One funding and other grants.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

General Fund

The Center's general fund balance decreased \$1,133,861. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2010 <u>Amount</u>	2009 <u>Amount</u>	Increase (Decrease)	Percentage Change
<u>Revenues</u>				
Customer services	\$ 2,627,589	\$ 2,684,823	\$ (57,234)	(2.13) %
Tuition	8,616,559	8,701,450	(84,891)	(0.98) %
Earnings on investments	52,047	98,344	(46,297)	(47.08) %
Intergovernmental	2,780,208	2,846,022	(65,814)	(2.31) %
Other revenues	<u>260,200</u>	<u>499,031</u>	<u>(238,831)</u>	(47.86) %
Total	<u>\$ 14,336,603</u>	<u>\$ 14,829,670</u>	<u>\$ (493,067)</u>	(3.32) %
<u>Expenditures</u>				
Instruction	\$ 6,041,075	\$ 5,918,523	\$ 122,552	2.07 %
Support services	9,248,698	9,363,042	(114,344)	(1.22) %
Non-instructional services	92,596	36,742	55,854	152.02 %
Facilities acquisition and construction	1,851,839	63,105	1,788,734	2,834.54 %
Capital outlay	10,800		10,800	100.00 %
Debt service	<u>1,254</u>		<u>1,254</u>	100.00 %
Total	<u>\$ 17,246,262</u>	<u>\$ 15,381,412</u>	<u>\$ 1,864,850</u>	12.12 %

Earnings on investments decreased due to lower interest rates. Intergovernmental revenue decreased due to a ten percent reduction in State aid. Other revenues decreased due to the decrease in rental revenues. The Center paid significantly more in facilities acquisition and construction in 2010 than 2009 for the Shuer building roofing project and capital improvements at the Collingwood building.

Auxiliary Services Fund

The auxiliary services fund had \$3,279,555 in revenues and other financing sources and \$3,240,700 in expenditures. During fiscal year 2010, the auxiliary services fund's fund balance increased \$38,855 to \$310,336.

Community School Operations Fund

The community school operations fund had \$3,381,195 in revenues and other financing sources and \$3,497,679 in expenditures and other financing uses. During fiscal year 2010, the community school operations fund's fund balance decreased \$116,484 from \$891,770 to \$775,286.

Other Grants Fund

The other grants fund had \$914,848 in revenues and other financing sources and \$949,288 in expenditures and other financing uses. During fiscal year 2010, the other grants fund's fund balance decreased \$34,440 to \$1,196,767.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2010, the Center had \$3,677,061 invested in land, buildings and improvements, improvements other than buildings, furniture, fixtures and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2010 balances compared to 2009:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2010	2009
Land	\$ 314,321	\$ 314,321
Building and improvements	2,824,215	1,156,824
Improvements other than buildings	5,227	5,648
Furniture, fixtures and equipment	500,454	611,654
Vehicles	32,844	
Total	<u>\$ 3,677,061</u>	<u>\$ 2,088,447</u>

The overall increase in capital assets of \$1,588,614 is due to capital outlays of \$1,812,830 exceeding depreciation expense of \$224,216 in the fiscal year.

See Note 7 to the basic financial statements for additional information on the Center's capital assets.

Debt Administration

At June 30, 2010, the Center had a lease agreement of \$9,853. Of this total \$1,963 is due within one year and \$7,890 is due in greater than one year. See Note 8 to the basic financial statements for additional information on the Center's debt obligations.

Current Financial Related Activities

The Center is financially solvent. As the preceding information shows, the Center relies heavily on contracts with local, city, and exempted village school districts in Lucas County, as well as state foundation revenue and grants. The new contracts with our local, city, and exempted school districts, and providing the fiscal and administrative role to several entities, the ESC will be able to provide the necessary funds to meet operating expenses in the future.

Contacting the Center's Financial Management

This financial report is designed to provide our member districts and other interested parties with a general overview of the Center's finances and to show the Center's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Richard Cox, Treasurer of Lucas County Educational Service Center, at 2275 Collingwood Avenue, Toledo, Ohio 43620-1148 or by e-mail at lc_rac@nwoca.org.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents . . .	\$ 5,622,126
Receivables:	
Accounts	12,774
Intergovernmental	1,298,080
Accrued interest	21,245
Capital assets:	
Land	314,321
Depreciable capital assets, net.	<u>3,362,740</u>
Capital assets, net	<u>3,677,061</u>
 Total assets.	 <u>10,631,286</u>
 Liabilities:	
Accounts payable.	75,411
Accrued wages and benefits	1,327,451
Intergovernmental payable	97,203
Pension obligation payable.	207,069
Unearned revenue	15,755
Long-term liabilities:	
Due within one year.	284,822
Due within more than one year	<u>1,375,402</u>
 Total liabilities	 <u>3,383,113</u>
 Net Assets:	
Invested in capital assets, net of related debt.	3,667,208
Restricted for:	
Community school operations	700,754
Auxiliary services.	5,846
Locally funded programs	1,178,115
State funded programs.	70,497
Federally funded programs	235,845
Food service operations	7,874
Other purposes	1,638
Unrestricted	<u>1,380,396</u>
 Total net assets	 <u>\$ 7,248,173</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities	
Governmental activities:				
Instruction:				
Regular	\$ 55,319	\$ 2,040	\$ 26,107	\$ (27,172)
Special	6,415,718	4,678,117	283,145	(1,454,456)
Vocational	104,996	3,975	4,655	(96,366)
Adult/continuing.	44,322	2,727	68,204	26,609
Other	114,788			(114,788)
Support services:				
Pupil.	5,745,174	3,633,202	846,905	(1,265,067)
Instructional staff	5,738,601	2,544,160	2,952,365	(242,076)
Board of education	23,307			(23,307)
Administration.	2,489,404	2,249,058	103,990	(136,356)
Fiscal.	1,172,068	1,189,337	131,716	148,985
Business.	76,019			(76,019)
Operations and maintenance	1,017,608	689,414	113,449	(214,745)
Pupil transportation.	23,452	117,707	1,188	95,443
Central	239,087	51,755	12,408	(174,924)
Operation of non-instructional services:				
Food service operations	32,141	2,857	32,369	3,085
Other non-instructional services	3,526,599	2,893,433	449,510	(183,656)
Interest and fiscal charges	307			(307)
Total governmental activities	\$ 26,818,910	\$ 18,057,782	\$ 5,026,011	(3,735,117)
General Revenues:				
Grants and entitlements not restricted				
to specific programs				2,780,208
Investment earnings				72,187
Miscellaneous				255,296
Total general revenues				3,107,691
Change in net assets				(627,426)
Net assets at beginning of year.				7,875,599
Net assets at end of year				\$ 7,248,173

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General</u>	<u>Auxiliary Services</u>	<u>Community School Operations</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:						
Equity in pooled cash and cash equivalents.	\$ 3,037,577	\$ 416,647	\$ 767,599	\$ 1,196,716	\$ 203,587	\$ 5,622,126
Receivables:						
Accounts.	86			12,688		12,774
Intergovernmental	486,475	344,124	34,459	7,916	425,106	1,298,080
Accrued interest	21,245					21,245
Due from other funds	111,068					111,068
Total assets	<u>\$ 3,656,451</u>	<u>\$ 760,771</u>	<u>\$ 802,058</u>	<u>\$ 1,217,320</u>	<u>\$ 628,693</u>	<u>\$ 7,065,293</u>
Liabilities:						
Accounts payable	\$ 33,248	\$ 16,254	\$ 11,296	\$ 1,868	\$ 12,745	\$ 75,411
Accrued wages and benefits.	947,066	294,246	6,080		80,059	1,327,451
Intergovernmental payable	62,097	14,140	3,203	4,867	12,896	97,203
Compensated absences payable	52,622	27,011				79,633
Pension obligation payable	145,390	40,761	146	10,009	10,763	207,069
Due to other funds					111,068	111,068
Deferred revenue	213,169	58,023	6,047	3,809	164,945	445,993
Unearned revenue.					15,755	15,755
Total liabilities.	<u>1,453,592</u>	<u>450,435</u>	<u>26,772</u>	<u>20,553</u>	<u>408,231</u>	<u>2,359,583</u>
Fund Balances:						
Reserved for encumbrances	115,603	112,256	2,556	22,045	160,967	413,427
Unreserved, undesignated, reported in: General fund.	2,087,256					2,087,256
Special revenue funds		198,080	772,730	1,174,722	59,495	2,205,027
Total fund balances	<u>2,202,859</u>	<u>310,336</u>	<u>775,286</u>	<u>1,196,767</u>	<u>220,462</u>	<u>4,705,710</u>
Total liabilities and fund balances	<u>\$ 3,656,451</u>	<u>\$ 760,771</u>	<u>\$ 802,058</u>	<u>\$ 1,217,320</u>	<u>\$ 628,693</u>	<u>\$ 7,065,293</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances		\$	4,705,710
<i>Amounts reported for governmental activities on 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.			3,677,061
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accounts receivable	3,865		
Intergovernmental receivable	420,883		
Accrued interest receivable	21,245		
Total			445,993
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences	(1,570,738)		
Capital lease obligation	(9,853)		
Total			(1,580,591)
Net assets of governmental activities		\$	<u>7,248,173</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General	Auxiliary Services	Community School Operations	Other Grants	Other Governmental Funds	Total Governmental Funds
Revenues:						
From local sources:						
Tuition	\$ 8,616,559			\$ 159,407		\$ 8,775,966
Earnings on investments	52,047	\$ 2,557	\$ 9,154			63,758
Classroom materials and fees			15,480	61,788	\$ 300	77,568
Charges for services	1,504				2,857	4,361
Extracurricular				3,337		3,337
Customer services	2,627,589	3,210,529	3,352,276	208,360	25	9,398,779
Rentals	194,833			6,948		201,781
Contributions and donations	90		400	23,568		24,058
Other local revenues	63,773	41,469	1,135	90,299		196,676
Intergovernmental - State	2,780,208			256,525	1,271,663	4,308,396
Intergovernmental - Federal					3,189,281	3,189,281
Total revenue	14,336,603	3,254,555	3,378,445	810,232	4,464,126	26,243,961
Expenditures:						
Current:						
Instruction:						
Regular	27,859			3,796	15,108	46,763
Special	5,804,564	264,660		28,352	256,770	6,354,346
Vocational	93,864			9,302		103,166
Adult/continuing				5,122	36,990	42,112
Other	114,788					114,788
Support services:						
Pupil	4,566,792	159,242	19	55,903	902,233	5,684,189
Instructional staff	1,152,594	190	779,746	426,590	3,284,803	5,643,923
Board of education	23,258					23,258
Administration	1,869,044	5,255	391,591	160,682	14,181	2,440,753
Fiscal	568,772		395,888	1,162	185,817	1,151,639
Business	74,677					74,677
Operations and maintenance	834,309		24,608	13,316	125,352	997,585
Pupil transportation	1,569		19,699	2,184		23,452
Central	157,683		60,883	2,608	11,303	232,477
Operation of non-instructional services:						
Food service operations					32,141	32,141
Operation of non-instructional services	92,596	2,791,456		137,973	302,342	3,324,367
Facilities acquisition and construction	1,851,839	19,897	26,324	31,077		1,929,137
Capital outlay	10,800					10,800
Debt service:						
Principal retirement	947					947
Interest and fiscal charges	307					307
Total expenditures	17,246,262	3,240,700	1,698,758	878,067	5,167,040	28,230,827
Excess (deficiency) of revenues over (under) expenditures	(2,909,659)	13,855	1,679,687	(67,835)	(702,914)	(1,986,866)
Other financing sources (uses):						
Sale of assets	6,298		2,750			9,048
Transfers in	1,918,575	25,000		104,616	30,259	2,078,450
Transfers (out)	(159,875)		(1,798,921)	(71,221)	(48,433)	(2,078,450)
Capital lease transaction	10,800					10,800
Total other financing sources (uses)	1,775,798	25,000	(1,796,171)	33,395	(18,174)	19,848
Net change in fund balances	(1,133,861)	38,855	(116,484)	(34,440)	(721,088)	(1,967,018)
Fund balances at beginning of year	3,336,720	271,481	891,770	1,231,207	941,550	6,672,728
Fund balances at end of year	\$ 2,202,859	\$ 310,336	\$ 775,286	\$ 1,196,767	\$ 220,462	\$ 4,705,710

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

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, 2010

Net change in fund balances - total governmental funds \$ (1,967,018)

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 costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.

Capital asset additions	1,812,830	
Current year depreciation	(224,216)	
Total		1,588,614

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

Tuition revenue	(3,236)	
Earnings on investments	20,140	
Classroom materials and fees	(161)	
Rental income	(1,035)	
Customer services revenue	(141,399)	
Other local revenues	(9,635)	
Intergovernmental revenue	73,801	
Total		(61,525)

Repayment capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 947

Proceeds of capital lease transactions are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets. (10,800)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (177,644)

Change in net assets of governmental activities \$ (627,426)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	Agency
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 79,123
Receivables:	
Intergovernmental.	9,709
Total assets.	\$ 88,832
Liabilities:	
Accounts payable.	\$ 69
Accrued wages and benefits	9,119
Intergovernmental payable	17,238
Compensated absences payable.	61,082
Pension obligation payable.	1,324
Total liabilities	\$ 88,832

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

NOTE 1 - DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER

The Lucas County Educational Service Center (the "Center") is located in Toledo, Ohio, the county seat. The Center supplies supervisory, special education, administrative, and other services to the Anthony Wayne, Ottawa Hills, Springfield, and Washington Local School Districts; Perrysburg and Rossford Exempted Village School Districts; and Maumee, Oregon, and Sylvania City School Districts. The Center furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

The Center operates under a locally elected Board of Education consisting of five members elected at-large for staggered four year terms. The Center has 9 administrators, 263 full-time and part-time certified employees, and 141 full-time and part-time classified employees who provide services to the local, exempted village and city school districts.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the 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 Center also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities, provided they do not conflict with or contradict GASB pronouncements. The Center's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Center are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Center. For the Center, this includes general operations, contract services, and student related programs of the Center.

Component units are legally separate organizations for which the Center is financially accountable. The Center is financially accountable for an organization if the Center appoints a voting majority of the organization's Governing Board and (1) the Center is able to significantly influence the programs or services performed or provided by the organization; or (2) the Center is legally entitled to or can otherwise access the organization's resources; or (3) the Center is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Center is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Center in that the Center approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the Center has no component units. The basic financial statements of the reporting entity include only those of the Center (the primary government).

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

As of June 30, 2010, the Center served as fiscal agent for charter schools established under Chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of the Center.

The following organizations are described due to their relationship to the Center:

JOINTLY GOVERNED ORGANIZATIONS

Penta Career Center (PCC)

The PCC is a jointly governed organization established by the Ohio Revised Code (ORC) to provide vocational and special needs to students. The PCC accepts non-tuition students from the Center as a member school. The PCC is operated under the direction of a Board consisting of eleven members, each appointed for a term of two years, to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Centers, one from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. The Center does not retain an ongoing financial interest or responsibility in the PCC. Financial information can be obtained from the PCC, Carrie Herringshaw, who serves as Treasurer, at 9301 Buck Road, Perrysburg, Ohio, 43551-4594.

Northwest Ohio Computer Association (NWOCA)

NWOCA is an association of thirty-seven educational entities, primarily school districts, located in Defiance, Fulton, Henry, Lucas, Williams and Wood 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 members. NWOCA is governed by its participating members, which consists of a representative from each member entity. Financial information can be obtained from Cindy Siler, who serves as Treasurer, at 209 Nolan Parkway, P.O. Box 407, Archbold, Ohio 43502.

Northwest Ohio Educational Council (NWOEC)

The NWOEC was established to foster cooperation among various school districts within Ohio that participate in the Northwest Ohio Educational Council Self-Insurance Pool Program (NWOEC Program). NWOEC is organized under 167.01 of the Ohio Revised Code as a regional council of governments pursuant to a written agreement entered into by its members and by policies adopted by the member school districts. The nine-member Insurance Committee conducts the business and affairs of the NWOEC Program.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

PUBLIC ENTITY RISK POOL

Northwest Ohio Educational Council Self-Insurance Pool Program (NWOEC Program)

The Center participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NWOEC Program) which is an insurance purchasing pool. The NWOEC Program is created and organized pursuant to and as authorized by 2744.081 of the Ohio Revised Code. The NWOEC Program is a non-profit organization to its members and an instrumentality for each member the purpose of enabling members of the NWOEC to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NWOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the Governing Board of the NWOEC.

The NWOEC Program has an agreement with Marsh USA for administrative services and Cambridge Integrated Services, Inc. for claims processing. The Center paid \$52,200 for these services to the NWOEC Program in fiscal year 2010. To obtain financial information write to Frank McKain, Marsh USA, One Seagate Center, Suite 1860, Toledo, Ohio 43604.

Separately issued financial statements for the NWOEC Program can be obtained by writing to Paul Brotski, Treasurer of Maumee City School District, 716 Askin Street, Maumee, Ohio 43537.

B. Fund Accounting

The Center uses funds to maintain its financial records during the year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Center functions or activities. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically 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 following are the Center's major governmental funds:

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

Auxiliary services fund - This fund accounts for funds that provide service and materials to pupils attending parochial schools.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Community school operations fund - This fund accounts for financing, accounting and fiscal activities of community schools that the Center employees perform.

Other grants fund - This fund accounts for various grants and programs offered by the Center.

Other governmental funds of the Center are used to account for all financial resources whose use is restricted to a particular purpose.

FIDUCIARY FUNDS

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. The Center's only fiduciary fund type is agency funds.

Agency funds are custodial in nature (assets and liabilities) and do not involve measurement of results of operations. The Center's agency funds account for various resources held for other organizations.

C. Basis of Presentation and Measurement Focus

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

The statement of net assets presents the financial condition of the governmental activities of the Center at fiscal year end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the Center. 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 amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the Center, with certain limited exceptions. 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 Center.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the Center are included on the statement of net assets.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Fund Financial Statements - During the year, the Center segregates transactions related to certain Center functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements report detailed information about the Center. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Agency funds do not report a measurement focus as they do not report operations.

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. Governmental funds use the modified accrual basis of accounting. Fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Nonexchange 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. 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 Center, available means expected to be received within sixty days of fiscal year end.

Nonexchange transactions, in which the 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 fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Center must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Center on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

Unearned Revenue and Deferred Revenue - Unearned revenue and deferred revenue arise when assets are recognized before revenue recognition criteria have been satisfied.

Revenues received in advance of the fiscal year for which they are intended to finance have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have 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. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Cash and Investments

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

During fiscal year 2010, investments were limited to State Treasury Asset Reserve of Ohio (STAR Ohio).

The Center has invested funds in STAR Ohio during fiscal year 2010. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shares price which is the price the investment could be sold for on June 30, 2010.

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund or by policy of the Board. Interest revenue credited to the general fund during fiscal year 2010 amounted to \$52,047, which includes \$16,637 assigned from other funds.

For presentation on the basic 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 Center are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

An analysis of the Center's investment account at year end is provided in Note 4.

F. Capital Assets

General capital assets are those assets related to activities reported in the governmental funds. These assets generally result 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.

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 Center maintains a capitalization threshold of \$2,000. 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. Interest incurred during the construction of capital assets is also capitalized. The Center does not possess infrastructure.

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

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Buildings and Improvements	25-40 years
Improvements Other than Buildings	20 years
Furniture and Equipment	5-20 years
Vehicles	10 years

G. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "due to/from other funds". These amounts are eliminated in the governmental type activities columns of the statement of net assets.

H. Compensated Absences

Compensated absences of the Center consist of vacation leave and sick leave liability to the extent that payments to the employee for these absences are attributed to services already rendered and are not contingent on specific event that is outside the control of the Center and the employee.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination (severance) benefits. A liability for sick leave is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2010, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for sick leave on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least 10 years of service were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and sick leave payments has been calculated using pay rates in effect at June 30, 2010 and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements. Compensated absences will be paid from the fund from which the employee's salaries are paid.

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 that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Capital leases are recognized as a liability on the fund financial statements when due.

J. Fund Balance Reserves

The Center reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances in the governmental funds.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

K. Net Assets

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

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

L. Estimates

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

M. Interfund Activity

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 basic financial statements.

N. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Center and that are either unusual in nature or infrequent in occurrence. The Center did not have any transactions that were considered a special item or extraordinary during year 2010.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2010, the Center has implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments", and GASB Statement No. 58, "Accounting and Financial Reporting for Chapter 9 Bankruptcies".

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(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

GASB Statement No. 51 addresses accounting and financial reporting standards for intangible assets, which are assets that lack physical substance, are nonfinancial in nature, and have an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, water rights, computer software, patents, and trademarks. GASB Statement No. 51 improves the quality of financial reporting by creating consistency in the recognition, initial measurement, and amortization of intangible assets. The implementation of GASB Statement No. 51 did not have an effect on the financial statements of the Center.

GASB Statement No. 53 addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments include interest rate and commodity swaps, interest rate locks, options, swaptions, forward contracts, and futures contracts. The implementation of GASB Statement No. 53 did not have an effect on the financial statements of the Center.

GASB Statement No. 58 establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. GASB Statement No. 58 requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The implementation of GASB Statement No. 58 did not have an effect on the financial statements of the Center.

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE - (Continued)

B. Deficit Fund Balance

Fund balance at June 30, 2010 included the following individual fund deficits:

<u>Nonmajor governmental fund</u>	<u>Deficit</u>
Public school preschool	\$ 6,728
HSTW	1,001
Title I	12,196

The general fund is liable for the deficit in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances result from adjustments for accrued liabilities.

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the 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 Center treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

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

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

Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in items (1) and (2) above and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time; and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Protection of the 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 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.

A. Deposits with Financial Institutions

At June 30, 2010, the carrying amount of all the Center deposits was \$5,476,094. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2010, \$3,137,127 of the Center's bank balance of \$6,628,841 was exposed to custodial risk as discussed below, while \$3,491,714 was covered by the FDIC.

Custodial credit risk is the risk that, in the event of bank failure, the Center's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Center.

The Center has no deposit policy for custodial credit risk beyond the requirements of State statute. Although the securities were held by the pledging institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the Center to a successful claim by the FDIC.

B. Investments

As of June 30, 2010, the Center had the following investment:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
STAR Ohio	\$ 225,155	\$ 225,155

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(Continued)

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interest Rate Risk: Interest rate risk arises potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Center's investment policy limits investment portfolio maturities to five years or less.

Credit Risk: Standard & Poor's has assigned STAR Ohio an AAAM money market rating. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard service rating. The Center's investment policy does not specifically address credit risk beyond requiring the Center to only invest in securities authorized by State statute.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Center will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Center has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the Treasurer or qualified trustee.

Concentration of Credit Risk: The Center places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the Center at June 30, 2010:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
STAR Ohio	\$ 225,155	<u>100.00</u>

C. Reconciliation of Cash and Investments to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the note above to cash and investments as reported on the statement of net assets as of June 30, 2010:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 5,476,094
Investments	<u>225,155</u>
Total	<u>\$ 5,701,249</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 5,622,126
Agency fund	<u>79,123</u>
Total	<u>\$ 5,701,249</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 5 - INTERFUND TRANSACTIONS

- A.** Interfund transfers for the fiscal year ended June 30, 2010, consisted of the following, as reported on the fund financial statements:

<u>Transfers to general fund from:</u>	<u>Amount</u>
Community school operations	\$ 1,798,921
Other grants	71,221
Nonmajor governmental funds	<u>48,433</u>
Total transfers to general fund	<u>1,918,575</u>
 <u>Transfers to auxiliary services fund from:</u>	
General fund	25,000
 <u>Transfers to other grants fund from:</u>	
General fund	104,616
 <u>Transfers to nonmajor governmental funds from:</u>	
General fund	<u>30,259</u>
Total transfers	<u>\$ 2,078,450</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and (3) move debt proceeds to the fund which is required to expend them. All transfers were made in compliance with Ohio Revised Code Sections 5705.14, 5705.15 and 5705.16.

- B.** Interfund balances at June 30, 2010 as reported on the fund financial statements consist of the following amounts due to/from other funds:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	\$ 111,068

The primary purpose of the due to/from other funds is to cover the negative cash balances at fiscal year- end in the alternative education, miscellaneous state grants, drug-free, preschool grant for the handicapped, and improving teacher quality nonmajor special revenue funds. The interfund balance will be repaid once the anticipated revenues are received.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 6 - RECEIVABLES

Receivables at June 30, 2010 consisted of accounts (billings for user charged services and student fees), accrued interest, and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 12,774
Intergovernmental	1,298,080
Accrued interest	<u>21,245</u>
Total	<u><u>\$ 1,332,099</u></u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected in the subsequent year.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>06/30/09</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>06/30/10</u>
Governmental activities:				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 314,321	_____	_____	\$ 314,321
Total capital assets, not being depreciated	<u>314,321</u>	_____	_____	<u>314,321</u>
<i>Capital assets, being depreciated:</i>				
Buildings and improvements	1,391,562	1,740,602	_____	3,132,164
Improvements other than buildings	8,421	_____	_____	8,421
Furniture, fixtures, and equipment	1,788,851	37,655	_____	1,826,506
Vehicles	_____	34,573	_____	<u>34,573</u>
Total capital assets, being depreciated	<u>3,188,834</u>	<u>1,812,830</u>	_____	<u>5,001,664</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(234,738)	(73,211)	_____	(307,949)
Improvements other than buildings	(2,773)	(421)	_____	(3,194)
Furniture, fixtures, and equipment	(1,177,197)	(148,855)	_____	(1,326,052)
Vehicles	_____	(1,729)	_____	<u>(1,729)</u>
Total accumulated depreciation	<u>(1,414,708)</u>	<u>(224,216)</u>	_____	<u>(1,638,924)</u>
Governmental activities capital assets, net	<u>\$ 2,088,447</u>	<u>\$ 1,588,614</u>	_____	<u>\$ 3,677,061</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 7 - CAPITAL ASSETS – (continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 995
Special	22,749
Vocational	403
Adult/continuing	2,210
<u>Support services:</u>	
Pupil	24,980
Instructional staff	111,871
Board of Education	49
Administration	11,297
Fiscal	5,681
Business	1,342
Operations and maintenance	22,620
Central	5,489
Operation of non-instructional services	<u>14,530</u>
Total depreciation expense	<u>\$ 224,216</u>

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2010, the Center entered into a lease agreement for office equipment. The Center's lease obligation met the criteria of a capital lease. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements. These expenditures are reflected as program/function expenditures on a budgetary basis. The general fund made payments of principal and interest in the amount of \$947 and \$307, respectively on the capital lease during fiscal year 2010.

Capital assets acquired by lease have been capitalized and depreciated as follows:

Governmental activities	
Capital assets, being depreciated:	
Furniture, fixtures and equipment	\$ 10,800
Less: accumulated depreciation	
Furniture, fixtures and equipment	<u>(1,080)</u>
<i>Total capital assets, being depreciated, net</i>	<u>\$ 9,720</u>

The following is a schedule of the future long-term minimum lease payments required under capital lease and the present value of the minimum lease payments as of June 30, 2010.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE – (continued)

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2011	\$ 2,509
2012	2,509
2013	2,509
2014	2,509
2015	<u>1,255</u>
	11,291
Less: amount representing interest	<u>(1,438)</u>
Present value of minimum lease payments	<u>\$ 9,853</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2010, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/09</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/10</u>	Amounts Due in <u>One Year</u>
Governmental activities:					
Compensated absences	\$ 1,490,019	\$ 505,748	\$ (345,396)	\$ 1,650,371	\$ 282,859
Capital lease obligation	<u> </u>	<u>10,800</u>	<u>(947)</u>	<u>9,853</u>	<u>1,963</u>
Total long-term obligations, governmental activities	<u>\$ 1,490,019</u>	<u>\$ 516,548</u>	<u>\$ (346,343)</u>	<u>\$ 1,660,224</u>	<u>\$ 284,822</u>

Compensated absences will be paid from the fund from which the employee is paid, which for the Center, is primarily the general fund. See Note 8 for detail on the capital lease obligation.

NOTE 10 - RISK MANAGEMENT

Comprehensive

The Center does not have a “self-insurance” fund with formalized risk management programs.

The 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 Center is a member of the NWOEC Program (see Note 2.A. for detail). The NWOEC Program is a public entity risk pool established pursuant to ORC 9.833 in order to provide the following coverage:

Property (\$1,000 deductible)	\$1,000,000
Excess property	201,000,000
Flood & earthquake	1,000,000
Auto liability/physical damage (\$1,000 deductible)	1,000,000

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(Continued)

NOTE 10 - RISK MANAGEMENT – (continued)

Auto liability (\$5,000 per person medical payments)	1,000,000
Crime	500,000
Public employee dishonesty	500,000
Boiler and machinery (\$3,500 deductible)	
50,000,000	
General liability:	
Per occurrence	1,000,000
Aggregate per district	3,000,000
Educator's legal liability (\$5,000 deductible)	
1,000,000	
Employee benefit liability:	
Per occurrence	1,000,000
Aggregate per district	3,000,000
Umbrella coverage:	
Per occurrence	10,000,000
Aggregate per district	10,000,000

Settled claims have not exceeded this coverage in any of the past three years, and there has been no significant reduction in coverage from the prior fiscal year.

NOTE 11 - PENSION PLANS

A. School Employees Retirement System

Plan Description - The Center contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement, disability, survivor benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary and the Center is required to contribute at an actuarially determined rate. The current Center rate is 14 percent of annual covered payroll. A portion of the Center's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2010, 12.78 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended by the SERS' Retirement Board up to a statutory maximum amount of 10 percent for plan members and 14 percent for employers. Chapter 3309 of the Ohio Revised Code provides statutory authority for member and employer contributions. The Center's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2010, 2009 and 2008 were \$466,414, \$322,331 and \$351,306, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)

NOTE 11 - PENSION PLANS - (Continued)

B. State Teachers Retirement System of Ohio

Plan Description - The Center participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3771, by calling (888) 227-7877, or by visiting the STRS Ohio Web site at www.strsoh.org.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on a member's lifetime contributions and earned interest matched by STRS Ohio funds divided by an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump sum withdrawal. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. The DB portion of the Combined Plan payment is payable to a member on or after age 60; the DC portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50. Benefits are established by Chapter 3307 of the Ohio Revised Code.

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. Members in the DC Plan who become disabled are entitled only to their account balance. If a member of the DC Plan dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Funding Policy - For fiscal year 2010, plan members were required to contribute 10 percent of their annual covered salaries. The Center was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The Center's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2010, 2009 and 2008 were \$1,695,174, \$1,727,538 and \$1,718,843, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008. Contributions to the DC and Combined Plans for fiscal year 2010 were \$85,139 made by the Center and \$60,814 made by the plan members.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 12 - POSTEMPLOYMENT BENEFITS

A. School Employees Retirement System

Plan Description - The Center participates in two cost-sharing, multiple employer postemployment benefit plans administered by the School Employees Retirement System (SERS) for non-certificated retirees and their beneficiaries, a Health Care Plan and a Medicare Part B Plan. The Health Care Plan includes hospitalization and physicians' fees through several types of plans including HMO's, PPO's, 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 Medicare Part B Plan reimburses Medicare Part B premiums paid by eligible retirees and beneficiaries as set forth in Chapter 3309.69 of the Ohio Revised Code. 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 2010 was \$96.40 and SERS' reimbursement to retirees was \$45.50. Benefit provisions and the obligations to contribute are established by the System based on authority granted by State statute. The financial reports of both Plans are included in the SERS Comprehensive Annual Financial Report which is available by contacting SERS at 300 East Broad St., Suite 100, Columbus, Ohio 43215-3746. It is also posted on the SERS' Ohio website, www.ohsers.org, under *Employers/Audit Resources*.

Funding Policy - State statute permits SERS to fund the health care benefits through employer contributions. Each year, after the allocation for statutorily required benefits, the Retirement Board allocates the remainder of the employer contribution of 14 percent of covered payroll to the Health Care Fund. The Health Care Fund was established and is administered in accordance with Internal Revenue Code Section 105(e). For 2010, 0.46 percent of covered payroll was allocated to health care. 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 2.0 percent of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5 percent of the statewide SERS-covered payroll for the health care surcharge. For fiscal year 2010, the actuarially determined amount was \$35,800.

Active members do not contribute to the postemployment benefit plans. The 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 on the plan selected, qualified years of service, Medicare eligibility and retirement status.

The Center's contributions for health care (including surcharge) for the fiscal years ended June 30, 2010, 2009, and 2008 were \$77,341, \$213,211 and \$225,957, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 12 - POSTEMPLOYMENT BENEFITS - (Continued)

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2010, this actuarially required allocation was 0.76 percent of covered payroll. The Center's contributions for Medicare Part B for the fiscal years ended June 30, 2010, 2009, and 2008 were \$27,737, \$26,595 and \$25,312, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

B. State Teachers Retirement System of Ohio

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

Funding Policy - Ohio law authorizes STRS Ohio to offer the Plan and gives the Retirement Board authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Active employee members do not contribute to the Plan. All benefit recipients pay a monthly premium. Under Ohio law, funding for post-employment health care may be deducted from employer contributions. For 2010, STRS Ohio allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. The Center's contributions for health care for the fiscal years ended June 30, 2010, 2009, and 2008 were \$130,298, \$132,888 and \$132,219, respectively; 100 percent has been contributed for fiscal years 2010, 2009 and 2008.

NOTE 13 - STATE FUNDING

The ESC is funded by the State Board of Education from State funds for the cost of Part (A) of the budget.

Part (B) of the budget is funded in the following way: \$6.50 times the Average Daily Membership (ADM-the total number of pupils under the ESC's supervision) is apportioned by the State Board of Education from the local school districts to which the ESC provides services from payments made under the State's foundation program. Simultaneously, \$37.00 times the sum of the ADM is paid by the State Board of Education from State funds to the ESC. In fiscal year 2008, the State Board of Education reduced ESC funding by approximately 9.6%.

If additional funding is required and if a majority of the boards of education of the participating school districts approve, the cost of Part (B) of the budget that is in excess of \$43.50 times ADM approved by the State Board of Education is apportioned to the participating school districts through reductions in their state foundation. The State Board of Education initiates and supervises the procedure by which the participating boards approve or disapprove the apportionment. The local school districts to which the ESC provides services have agreed to pay \$6.50 per pupil to provide additional funding for services provided by the ESC.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)**

NOTE 14 - CONTINGENCIES

A. Grants

The Center receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement 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 Center. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the Center.

B. Litigation

The Center is involved in no litigation as either plaintiff or defendant.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 9,140,876	\$ 9,140,876	\$ 8,639,495	\$ (501,381)
Earnings on investments.	99,104	99,104	52,047	(47,057)
Charges for services.	2,617	2,617	1,504	(1,113)
Customer services	2,719,028	2,719,028	2,582,936	(136,092)
Rentals.	344,425	344,425	208,198	(136,227)
Contributions and donations.			90	90
Other local revenues.	84,674	84,674	64,130	(20,544)
Intergovernmental - State	2,716,676	2,716,676	2,780,209	63,533
Total revenues.	<u>15,107,400</u>	<u>15,107,400</u>	<u>14,328,609</u>	<u>(778,791)</u>
Expenditures:				
Current:				
Instruction:				
Regular	39,633	46,611	27,648	18,963
Special.	5,227,071	6,147,318	5,913,604	233,714
Vocational.	79,343	93,312	93,488	(176)
Other.	114,108	134,197	107,712	26,485
Support services:				
Pupil.	4,193,678	4,931,992	4,584,928	347,064
Instructional staff	1,032,102	1,213,808	1,141,333	72,475
Board of education	34,931	41,081	23,325	17,756
Administration.	1,724,120	2,027,659	1,875,900	151,759
Fiscal	498,613	586,396	570,523	15,873
Business	97,564	114,741	86,605	28,136
Operations and maintenance.	1,024,212	1,204,529	854,762	349,767
Pupil transportation	2,126	2,500	1,569	931
Central.	173,124	203,603	186,725	16,878
Operation of non-instructional services	79,578	93,588	90,481	3,107
Facilities acquisition and construction.	1,686,692	1,983,641	1,914,506	69,135
Total expenditures	<u>16,006,895</u>	<u>18,824,976</u>	<u>17,473,109</u>	<u>1,351,867</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(899,495)</u>	<u>(3,717,576)</u>	<u>(3,144,500)</u>	<u>573,076</u>
Other financing sources (uses):				
Sale of assets			6,298	6,298
Transfers in.	1,604,000	1,604,000	1,918,575	314,575
Transfers (out)	(1,211,679)	(1,425,000)	(159,875)	1,265,125
Reduction of prior year expenditures.	50,306	50,306	39,499	(10,807)
Total other financing sources (uses)	<u>442,627</u>	<u>229,306</u>	<u>1,804,497</u>	<u>1,575,191</u>
Net change in fund balance	(456,868)	(3,488,270)	(1,340,003)	2,148,267
Fund balance at beginning of year	3,842,812	3,842,812	3,842,812	
Prior year encumbrances appropriated	522,689	522,689	522,689	
Fund balance at end of year	<u>\$ 3,908,633</u>	<u>\$ 877,231</u>	<u>\$ 3,025,498</u>	<u>\$ 2,148,267</u>

SEE ACCOMPANYING NOTES TO THIS SCHEDULE

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
AUXILIARY SERVICES FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
From local sources:				
Earnings on investments.			\$ 2,557	\$ 2,557
Customer services	\$ 3,697,285	\$ 3,929,535	2,924,428	(1,005,107)
Other local revenues.			41,469	41,469
Total revenues.	<u>3,697,285</u>	<u>3,929,535</u>	<u>2,968,454</u>	<u>(961,081)</u>
Expenditures:				
Current:				
Instruction:				
Special.	370,523	337,771	264,943	72,828
Support services:				
Pupil.	127,981	132,782	159,650	(26,868)
Instructional staff		500	190	310
Administration.	34	28,108	19,501	8,607
Operation of non-instructional services . . .	3,000,298	3,118,309	2,892,461	225,848
Facilities acquisition and construction. . . .	19,897	19,897	19,897	
Total expenditures	<u>3,518,733</u>	<u>3,637,367</u>	<u>3,356,642</u>	<u>280,725</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>178,552</u>	<u>292,168</u>	<u>(388,188)</u>	<u>(680,356)</u>
Other financing sources:				
Transfers in.			25,000	25,000
Total other financing sources.			<u>25,000</u>	<u>25,000</u>
Net change in fund balance	178,552	292,168	(363,188)	(655,356)
Fund balance at beginning of year	568,784	568,784	568,784	
Prior year encumbrances appropriated . . .	83,441	83,441	83,441	
Fund balance at end of year	<u>\$ 830,777</u>	<u>\$ 944,393</u>	<u>\$ 289,037</u>	<u>\$ (655,356)</u>

SEE ACCOMPANYING NOTES TO THIS SCHEDULE

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
COMMUNITY SCHOOL OPERATIONS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Earnings on investments.	\$ 18,063	\$ 18,063	\$ 9,154	\$ (8,909)
Transportation fees			810	810
Classroom materials and fees	15,760	15,760	15,480	(280)
Customer services	3,131,834	3,131,834	3,483,046	351,212
Contributions and donations.			400	400
Other local revenues.	2,013	2,013	1,221	(792)
Total revenues.	<u>3,167,670</u>	<u>3,167,670</u>	<u>3,510,111</u>	<u>342,441</u>
Expenditures:				
Current:				
Support services:				
Pupil.			19	(19)
Instructional staff	610,224	817,268	782,364	34,904
Administration.	335,276	449,033	398,834	50,199
Fiscal	312,721	418,825	397,091	21,734
Operations and maintenance.	31,019	41,544	24,949	16,595
Pupil transportation	24,678	33,051	30,621	2,430
Central.	45,904	61,479	60,883	596
Facilities acquisition and construction.	19,655	26,324	26,324	-
Total expenditures	<u>1,379,477</u>	<u>1,847,524</u>	<u>1,721,085</u>	<u>126,439</u>
Excess of revenues over expenditures.	<u>1,788,193</u>	<u>1,320,146</u>	<u>1,789,026</u>	<u>468,880</u>
Other financing sources (uses):				
Sale of assets.			2,750	2,750
Transfers (out)	(1,387,522)	(1,858,298)	(1,798,921)	59,377
Reduction of prior year expenditures.	501	501		(501)
Total other financing sources (uses)	<u>(1,387,021)</u>	<u>(1,857,797)</u>	<u>(1,796,171)</u>	<u>61,626</u>
Net change in fund balance	401,172	(537,651)	(7,145)	530,506
Fund balance at beginning of year	765,071	765,071	765,071	
Prior year encumbrances appropriated	6,046	6,046	6,046	
Fund balance at end of year	<u>\$ 1,172,289</u>	<u>\$ 233,466</u>	<u>\$ 763,972</u>	<u>\$ 530,506</u>

SEE ACCOMPANYING NOTES TO THIS SCHEDULE

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
OTHER GRANTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 170,903	\$ 170,903	\$ 159,379	\$ (11,524)
Classroom materials and fees	59,151	59,121	61,788	2,667
Extracurricular.	3,800	3,800	3,337	(463)
Rentals.			9,810	9,810
Customer services	110,325	110,325	201,400	91,075
Contributions and donations.	60,500	66,000	23,568	(42,432)
Other local revenues.	8,980	55,192	82,891	27,699
Intergovernmental - State	31,750	243,750	256,525	12,775
Total revenues.	<u>445,409</u>	<u>709,091</u>	<u>798,698</u>	<u>89,607</u>
Expenditures:				
Current:				
Instruction:				
Regular	6,635	8,617	4,702	3,915
Special.	60,863	79,040	34,802	44,238
Vocational.	22,369	29,050	9,250	19,800
Adult/continuing.	4,701	6,105	6,099	6
Support services:				
Pupil.	57,231	74,323	61,685	12,638
Instructional staff	1,046,707	1,356,976	430,961	926,015
Administration.	250,246	324,981	178,084	146,897
Fiscal	895	1,162	1,162	
Business			82	(82)
Operations and maintenance.	16,167	20,995	13,662	7,333
Pupil transportation	5,403	7,016	1,397	5,619
Central.	2,555	3,318	2,608	710
Operation of non-instructional services	132,531	172,111	143,160	28,951
Extracurricular activities.	2,804	3,641		3,641
Facilities acquisition and construction.	23,930	31,077	31,077	
Total expenditures	<u>1,633,037</u>	<u>2,118,412</u>	<u>918,731</u>	<u>1,199,681</u>
Excess (deficiency) of revenues over (under) expenditures.	<u>(1,187,628)</u>	<u>(1,409,321)</u>	<u>(120,033)</u>	<u>1,289,288</u>
Other financing sources (uses):				
Transfers in.			104,616	104,616
Transfers (out)	<u>(80,550)</u>	<u>(104,606)</u>	<u>(71,221)</u>	<u>33,385</u>
Total other financing sources (uses)	<u>(80,550)</u>	<u>(104,606)</u>	<u>33,395</u>	<u>138,001</u>
Net change in fund balance	(1,268,178)	(1,513,927)	(86,638)	1,427,289
Fund balance at beginning of year	1,187,686	1,187,686	1,187,686	
Prior year encumbrances appropriated	70,107	70,107	70,107	
Fund balance (deficit) at end of year	<u>\$ (10,385)</u>	<u>\$ (256,134)</u>	<u>\$ 1,171,155</u>	<u>\$ 1,427,289</u>

SEE ACCOMPANYING NOTES TO THIS SCHEDULE

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

NOTE 1 - BUDGETARY PROCESS

The Center is not required under State statute to file budgetary information with the State Department of Education. However, the Center's Board does follow the budgetary process for control purposes.

The 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 statements reflect the amounts of the estimated revenues when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Board.

The Center's Board adopts an annual appropriation resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures 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 statements 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 statements represent the final appropriation amounts passed by the Board during the fiscal year.

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING

While the 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 accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The schedules of revenues, expenditures and changes in fund balance - budget and actual (budget basis) - for the general fund, auxiliary services fund, community school operations fund and other grants fund are 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 reservation of fund balance (GAAP basis).

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO**

BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Continued)

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the general fund and major special revenue funds:

	<u>General</u>	<u>Auxiliary Services</u>	<u>Community Schools Operations</u>	<u>Other Grants</u>
Budget basis	\$ (1,340,003)	\$ (363,188)	\$ (7,145)	\$ (86,638)
Net adjustment for revenue accruals	7,994	286,101	(131,666)	11,534
Net adjustment for expenditure accruals	103,700	(11,668)	18,700	15,103
Net adjustment for other sources/(uses)	(28,699)			
Adjustment for encumbrances	<u>123,147</u>	<u>127,610</u>	<u>3,627</u>	<u>25,561</u>
GAAP basis	<u>\$ (1,133,861)</u>	<u>\$ 38,855</u>	<u>\$ (116,484)</u>	<u>\$ (34,440)</u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

FEDERAL GRANTOR/ Pass Through Grantor Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<i>Nutrition Cluster:</i>			
School Breakfast Program	10.553	\$ 10,000	\$ 10,000
National School Lunch Program	10.555	25,482	25,482
TOTAL U.S. DEPARTMENT OF AGRICULTURE		35,482	35,482
U.S. DEPARTMENT OF TRANSPORTATION			
State and Community Highway Safety	20.600	48,304	53,714
U.S. DEPARTMENT OF DEFENSE			
Jr R.O.T.C.	12.XXX	88,825	88,825
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
ARRA - Title I Grants to Local Education Agencies	84.389	34,902	31,343
<i>Special Education Cluster:</i>			
Special Education_Grants to States (IDEA, Part B)	84.027	2,041,086	2,026,460
Special Education_Preschool Grants (IDEA, Part B)			
Early Childhood Special Education	84.173	100,363	102,286
ARRA - Special Education_Preschool Grants (IDEA, Part B)	84.392	45,848	58,615
Early Childhood Special Education			
<i>Total Special Education Cluster</i>		2,187,297	2,187,361
Special Education_State Personnel Development (IDEA, Part D)	84.323	35,472	35,079
Safe and Drug Free Schools and Communities_State Grants	84.186	56,196	66,002
Improving Teacher Quality State Grants (Title II, Part A)	84.367	162,244	185,371
School Improvement Grants	84.377	1,500	1,500
Education Secondary Transition	84.235	5,439	23,151
TOTAL U.S. DEPARTMENT OF EDUCATION		2,483,050	2,529,807
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		\$ 2,655,661	\$ 2,707,828

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FISCAL YEAR ENDED JUNE 30, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Lucas County Educational Service Center's (the Center's) federal award programs' receipts and disbursements. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

The Center commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the Center assumes it expends federal monies first.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Lucas County Educational Service Center
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center, Lucas County, (the Center) as of and for the year ended June 30, 2010, which collectively comprise the Center's basic financial statements and have issued our report thereon dated February 2, 2011. 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 control 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*.

We did note certain matters not requiring inclusion in this report that we reported to the Center's management in a separate letter dated February 2, 2011.

We intend this report solely for the information and use of management, the audit committee, Governing Board, federal awarding agencies and pass-through entities and others within the Center. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

February 2, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Lucas County Educational Service Center
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Governing Board:

Compliance

We have audited the compliance of Lucas County Educational Service Center (the Center) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies the Center's major federal programs. The Center's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the Center's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Center's compliance with those requirements.

In our opinion, the Lucas County Educational Service Center complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The Center's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Center's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of opining on compliance in accordance with OMB

Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We intend this report solely for the information and use of the audit committee, management, Governing Board, others within the Center, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.



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**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510(a)?	No
(d)(1)(vii)	Major Programs (list):	Special Education Cluster: <ul style="list-style-type: none"> • Special Education Grants to States - CFDA # 84.027 • Special Education Preschool Grants - CFDA # 84.173 • ARRA Special Education Preschool Grants - CFDA # 84.392
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
MARCH 1, 2011