



Dave Yost • Auditor of State

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

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Dave Yost • Auditor of State

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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County Educational Service Center, Lucas County, Ohio (the Center), as of and for the year ended June 30, 2011, 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 basic 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, 2011, 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.

As described in Note 3, the Center implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2012, on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Center's basic financial statements taken as a whole. The budgetary comparison schedules of the General, Auxiliary Services and Other Grants Funds provide 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 schedules 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 schedules 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

March 8, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(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, 2011. 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 2011 are as follows:

- In total, net assets of governmental activities decreased \$792,878 which represents a 10.94% decrease from 2010.
- General revenues accounted for \$2,961,583 in revenue or 11.83% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$22,067,598 or 88.17% of total revenues of \$25,029,181.
- The Center had \$25,822,059 in expenses related to governmental activities; \$22,067,598 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 \$2,961,583 were not adequate to provide for these programs.
- The Center's major governmental funds are the general fund, the auxiliary services fund and the other grants fund. The Center restated fund balance in accordance with GASB Statement No. 54 reclassify the community school operations fund (a major fund in 2010), as a component of the general fund, see Note 3.B. The general fund had \$16,562,048 in revenues and \$17,159,917 in expenditures and other financing uses. During fiscal year 2011, the general fund's fund balance decreased \$597,869 from a restated balance of \$2,978,145 to \$2,380,276.
- The auxiliary services fund had \$3,171,745 in revenues and other financing sources and \$3,232,769 in expenditures.
- The other grants fund had \$714,088 in revenues and other financing sources and \$938,120 in expenditures.

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.

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 and the other grants fund are by far the most significant funds, and the only governmental funds reported as major funds.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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 2011?" 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 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.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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 2011 and 2010.

	Net Assets	
	Governmental Activities 2011	Governmental Activities 2010
<u>Assets</u>		
Current and other assets	\$ 6,533,959	\$ 6,954,225
Capital assets, net	<u>3,547,884</u>	<u>3,677,061</u>
Total assets	<u>10,081,843</u>	<u>10,631,286</u>
<u>Liabilities</u>		
Current liabilities	1,884,280	1,722,889
Long-term liabilities	<u>1,742,268</u>	<u>1,660,224</u>
Total liabilities	<u>3,626,548</u>	<u>3,383,113</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	3,539,994	3,667,208
Restricted	1,395,788	2,200,569
Unrestricted	<u>1,519,513</u>	<u>1,380,396</u>
Total net assets	<u>\$ 6,455,295</u>	<u>\$ 7,248,173</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2011, the Center's assets exceeded liabilities by \$6,455,295. Of this total, \$1,519,513 is unrestricted in use.

At year-end, capital assets represented 35.19% of total assets. Capital assets include land, buildings and improvements, improvements other than buildings, and furniture, fixtures and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2011, were \$3,539,994. 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.

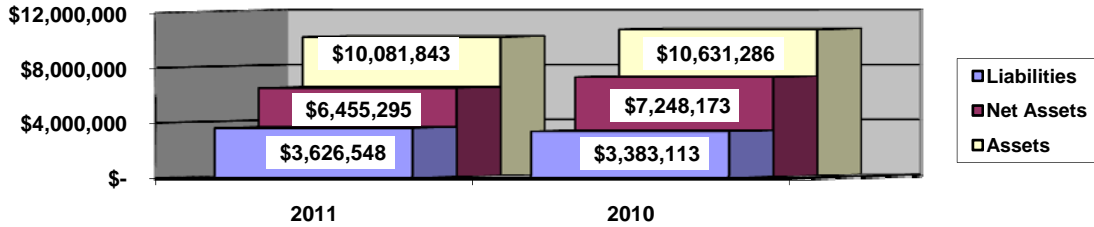
A portion of the Center's net assets, \$1,395,788 represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets of \$1,519,513 may be used to meet the Center's ongoing obligations to the students and creditors.

The graph below illustrates the Center's governmental activities assets, liabilities and net assets at June 30, 2011 and 2010.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Governmental Activities



The table below shows the change in net assets for fiscal year 2011 and 2010.

Change in Net Assets

	Governmental Activities 2011	Governmental Activities 2010
Revenues		
Program Revenues:		
Charges for services and sales	\$ 17,239,717	\$ 18,057,782
Operating grants and contributions	4,827,881	5,026,011
General revenues:		
Grants and entitlements	2,791,559	2,780,208
Investment earnings	31,356	72,187
Other	138,668	255,296
Total revenues	<u>25,029,181</u>	<u>26,191,484</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Change in Net Assets

	Governmental Activities <u>2011</u>	Governmental Activities <u>2010</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 33,972	\$ 55,319
Special	5,803,292	6,415,718
Vocational	116,156	104,996
Adult/continuing	54,555	44,322
Other	160,536	114,788
Support services:		
Pupil	5,866,468	5,745,174
Instructional staff	5,141,583	5,738,601
Board of education	27,876	23,307
Administration	2,748,700	2,489,404
Fiscal	1,201,593	1,172,068
Business	67,730	76,019
Operations and maintenance	1,181,199	1,017,608
Pupil transportation	2,450	23,452
Central	271,751	239,087
Food service operations	27,411	32,141
Other non-instructional services	3,115,541	3,526,599
Extracurricular activities	700	
Interest and fiscal charges	<u>546</u>	<u>307</u>
 Total expenses	 <u>25,822,059</u>	 <u>26,818,910</u>
 Change in net assets	 (792,878)	 (627,426)
Net assets at beginning of year	<u>7,248,173</u>	<u>7,875,599</u>
Net assets at end of year	<u>\$ 6,455,295</u>	<u>\$ 7,248,173</u>

Governmental Activities

Net assets of the Center's governmental activities decreased \$792,878. Total governmental expenses of \$25,822,059 were offset by program revenues of \$22,067,598, and general revenues of \$2,961,583. Program revenues supported 85.46% 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 68.88% of total governmental revenue.

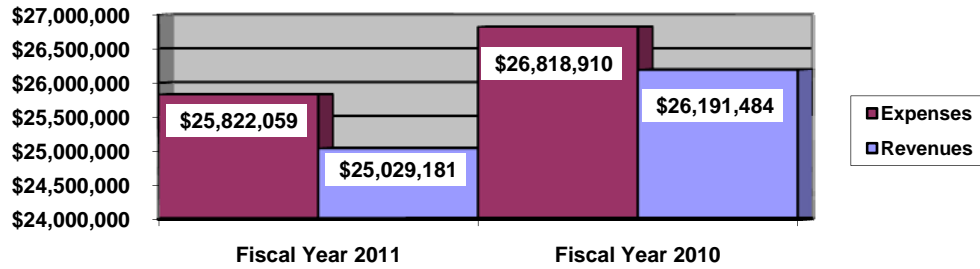
The largest expense of the Center is for support services. Support services expenses totaled \$16,509,350 or 63.94% of total governmental expenses for fiscal 2011.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)

The graph below presents the Center's governmental activities revenue and expenses for fiscal years 2011 and 2010.

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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

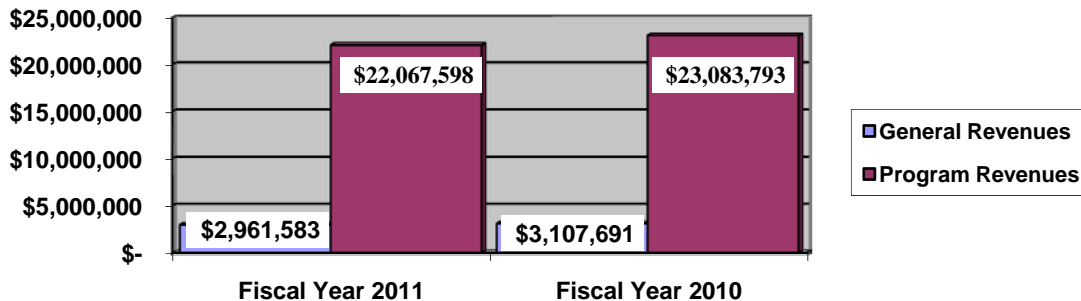
Governmental Activities

	Total Cost of Services 2011	Net Cost of Services 2011	Total Cost of Services 2010	Net Cost of Services 2010
Program expenses				
Instruction:				
Regular	\$ 33,972	\$ 11,679	\$ 55,319	\$ 27,172
Special	5,803,292	1,763,871	6,415,718	1,454,456
Vocational	116,156	100,431	104,996	96,366
Adult/Continuing	54,555	(33,855)	44,322	(26,609)
Other	160,536	51,068	114,788	114,788
Support services:				
Pupil	5,866,468	10,921	5,745,174	1,265,067
Instructional staff	5,141,583	1,523,076	5,738,601	242,076
Board of education	27,876	27,876	23,307	23,307
Administration	2,748,700	226,796	2,489,404	136,356
Fiscal	1,201,593	(251,769)	1,172,068	(148,985)
Business	67,730	67,588	76,019	76,019
Operations and maintenance	1,181,199	322,279	1,017,608	214,745
Pupil transportation	2,450	2,093	23,452	(95,443)
Central	271,751	142,253	239,087	174,924
Food service operations	27,411	(3,178)	32,141	(3,085)
Other non-instructional services	3,115,541	(207,289)	3,526,599	183,656
Extracurricular activities	700	75		
Interest and fiscal charges	546	546	307	307
Total expenses	\$ 25,822,059	\$ 3,754,461	\$ 26,818,910	\$ 3,735,117

For all governmental activities, program revenue support is 85.46%. 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 2011 and 2010.

Governmental Activities - General and Program Revenues



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

The Center's Funds

The Center's governmental funds reported a combined fund balance of \$3,862,790 which is lower than last year's restated total of \$4,705,710 (see Note 3.B.). The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2011 and 2010.

	Fund Balance <u>June 30, 2011</u>	(Restated) Fund Balance <u>June 30, 2010</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
General	\$ 2,380,276	\$ 2,978,145	\$ (597,869)	(20.08) %
Auxiliary services	249,312	310,336	(61,024)	(19.66) %
Other grants	972,735	1,196,767	(224,032)	(18.72) %
Other governmental	<u>260,467</u>	<u>220,462</u>	<u>40,005</u>	18.15 %
Total	<u>\$ 3,862,790</u>	<u>\$ 4,705,710</u>	<u>\$ (842,920)</u>	(17.91) %

An analysis of the general fund revenues and expenditures is provided in the section below. The increase in the fund balance of the other governmental funds is due to an increase in federal funding, particularly in other grants.

General Fund

The Center's general fund balance decreased \$597,869. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

	2011 <u>Amount</u>	Restated 2010 <u>Amount</u>	Increase <u>(Decrease)</u>	Percentage <u>Change</u>
<u>Revenues</u>				
Customer services	\$ 6,416,654	\$ 5,979,865	\$ 436,789	7.30 %
Tuition	7,146,052	8,616,559	(1,470,507)	(17.07) %
Earnings on investments	52,601	61,201	(8,600)	(14.05) %
Intergovernmental	2,791,559	2,780,208	11,351	0.41 %
Other revenues	<u>155,182</u>	<u>277,215</u>	<u>(122,033)</u>	(44.02) %
Total	<u>\$ 16,562,048</u>	<u>\$ 17,715,048</u>	<u>\$ (1,153,000)</u>	(6.51) %
<u>Expenditures</u>				
Instruction	\$ 5,426,407	\$ 6,041,075	\$ (614,668)	(10.17) %
Support services	11,282,860	10,921,132	361,728	3.31 %
Non-instructional services	152,941	92,596	60,345	65.17 %
Facilities acquisition and construction	100,895	1,878,163	(1,777,268)	(94.63) %
Capital outlay		10,800	(10,800)	(100.00) %
Debt service	<u>2,509</u>	<u>1,254</u>	<u>1,255</u>	100.08 %
Total	<u>\$ 16,965,612</u>	<u>\$ 18,945,020</u>	<u>\$ (1,979,408)</u>	(10.45) %

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

Earnings on investments decreased due to lower interest rates. Tuition revenue decreased due to decreased enrollment. Other revenues decreased due to the decrease in rental revenues. The Center paid significantly more in facilities acquisition and construction in 2010 than 2011 for the Shuer building roofing project and capital improvements at the Collingwood building. The decrease in instruction is due to decreased enrollment. The increase in debt service and decrease in capital outlay expenditures was due to the new capital lease in 2010.

Auxiliary Services Fund

The auxiliary services fund had \$3,171,745 in revenues and other financing sources and \$3,232,769 in expenditures. During fiscal year 2011, the auxiliary services fund's fund balance decreased \$61,024 to \$249,312.

Other Grants Fund

The other grants fund had \$714,088 in revenues and other financing sources and \$938,120 in expenditures. During fiscal year 2011, the other grants fund's fund balance decreased \$224,032 to \$972,735.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2011, the Center had \$3,547,884 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 2011 balances compared to 2010:

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

	Governmental Activities	
	2011	2010
Land	\$ 314,321	\$ 314,321
Building and improvements	2,764,842	2,824,215
Improvements other than buildings	4,806	5,227
Furniture, fixtures and equipment	434,528	500,454
Vehicles	29,387	32,844
Total	\$ 3,547,884	\$ 3,677,061

The overall decrease in capital assets of \$129,177 is due to depreciation expense of \$252,966 exceeding capital outlays of \$123,789 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, 2011, the Center had a lease agreement of \$7,890. Of this total \$2,086 is due within one year and \$5,804 is due in greater than one year. See Note 8 to the basic financial statements for additional information on the Center's debt obligations.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(UNAUDITED)**

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. With 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 the Educational Service Center of Lake Erie West, at 2275 Collingwood Avenue, Toledo, Ohio 43620-1148 or by e-mail at RCox@eslakeeriewest.org.

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

STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
Assets:	
Equity in pooled cash and cash equivalents. . .	\$ 5,075,646
Receivables:	
Accounts.	13,300
Accrued interest	3,732
Intergovernmental	1,441,281
Capital assets:	
Land	314,321
Depreciable capital assets, net.	3,233,563
Capital assets, net	3,547,884
 Total assets.	 10,081,843
 Liabilities:	
Accounts payable.	170,358
Accrued wages and benefits	1,340,110
Intergovernmental payable	162,500
Pension obligation payable.	211,312
Long-term liabilities:	
Due within one year.	506,243
Due in more than one year.	1,236,025
Total long-term liabilities.	1,742,268
Total liabilities	3,626,548
 Net Assets:	
Invested in capital assets, net of related debt.	3,539,994
Restricted for:	
Locally funded programs	955,608
State funded programs.	119,874
Federally funded programs	307,616
Food service operations	11,052
Other purposes	1,638
Total restricted net assets.	1,519,513
Unrestricted	1,519,513
Total net assets	\$ 6,455,295

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, 2011

	<u>Program Revenues</u>			Net (Expense) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services and Sales</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Governmental activities:				
Instruction:				
Regular	\$ 33,972	\$ 1,029	\$ 21,264	\$ (11,679)
Special	5,803,292	3,793,943	245,478	(1,763,871)
Vocational	116,156	10,660	5,065	(100,431)
Adult/continuing.	54,555	7,578	80,832	33,855
Other	160,536	109,468		(51,068)
Support services:				
Pupil.	5,866,468	5,133,382	722,165	(10,921)
Instructional staff	5,141,583	954,555	2,663,952	(1,523,076)
Board of education	27,876			(27,876)
Administration.	2,748,700	2,107,004	414,900	(226,796)
Fiscal.	1,201,593	1,314,422	138,940	251,769
Business.	67,730	96	46	(67,588)
Operations and maintenance	1,181,199	647,855	211,065	(322,279)
Pupil transportation.	2,450	242	115	(2,093)
Central	271,751	122,598	6,900	(142,253)
Operation of non-instructional services:				
Food service operations	27,411	2,025	28,564	3,178
Other non-instructional services	3,115,541	3,034,436	288,394	207,289
Extracurricular activities.	700	424	201	(75)
Interest and fiscal charges	546			(546)
Totals	<u>\$ 25,822,059</u>	<u>\$ 17,239,717</u>	<u>\$ 4,827,881</u>	<u>(3,754,461)</u>

General Revenues:

Grants and entitlements not restricted to specific programs	2,791,559
Investment earnings.	31,356
Miscellaneous	<u>138,668</u>
Total general revenues	<u>2,961,583</u>
Change in net assets	(792,878)
Net assets at beginning of year.	<u>7,248,173</u>
Net assets at end of year	<u>\$ 6,455,295</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Auxiliary Services	Other Grants	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in pooled cash and cash equivalents	\$ 3,265,055	\$ 583,014	\$ 984,819	\$ 242,758	\$ 5,075,646
Receivables:					
Accounts			13,300		13,300
Intergovernmental	818,672	90,688		531,921	1,441,281
Accrued interest	3,732				3,732
Due from other funds	93,561				93,561
Total assets	<u>\$ 4,181,020</u>	<u>\$ 673,702</u>	<u>\$ 998,119</u>	<u>\$ 774,679</u>	<u>\$ 6,627,520</u>
Liabilities:					
Accounts payable	\$ 58,434	\$ 32,258	\$ 939	\$ 78,727	\$ 170,358
Accrued wages and benefits	977,097	284,616	3,332	75,065	1,340,110
Intergovernmental payable	135,495	13,369	3,054	10,582	162,500
Compensated absences payable	155,531				155,531
Pension obligation payable	148,764	39,475	12,118	10,955	211,312
Due to other funds				93,561	93,561
Deferred revenue	325,423	54,672	5,941	245,322	631,358
Total liabilities	<u>1,800,744</u>	<u>424,390</u>	<u>25,384</u>	<u>514,212</u>	<u>2,764,730</u>
Fund Balances:					
Restricted:					
Food service operations				11,052	11,052
Special education				196,412	196,412
Targeted academic assistance				41,322	41,322
Vocational education				1,349	1,349
Other purposes			633,079	72,011	705,090
Committed:					
Auxiliary services		249,312			249,312
Other purposes	70,789				70,789
Community school operations	827,024				827,024
Preschool and base programs			183,531		183,531
Assigned:					
Student and staff support	22,637				22,637
Staff development			145,268		145,268
Unassigned (deficit)	1,459,826		10,857	(61,679)	1,409,004
Total fund balances	<u>2,380,276</u>	<u>249,312</u>	<u>972,735</u>	<u>260,467</u>	<u>3,862,790</u>
Total liabilities and fund balances	<u>\$ 4,181,020</u>	<u>\$ 673,702</u>	<u>\$ 998,119</u>	<u>\$ 774,679</u>	<u>\$ 6,627,520</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, 2011

Total governmental fund balances		\$	3,862,790
 <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.			3,547,884
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.			
Accounts receivable	\$	5,941	
Intergovernmental receivable		<u>625,417</u>	
Total			631,358
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.			
Compensated absences		(1,578,847)	
Capital lease obligation		<u>(7,890)</u>	
Total			<u>(1,586,737)</u>
Net assets of governmental activities		\$	<u><u>6,455,295</u></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, 2011

	<u>General</u>	<u>Auxiliary Services</u>	<u>Other Grants</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
From local sources:					
Tuition	\$ 7,146,052		\$ 130,551		\$ 7,276,603
Earnings on investments	52,601	\$ 2,120		\$ 15	54,736
Classroom materials and fees	15,400		92,629	400	108,429
Charges for services	1,114			2,025	3,139
Extracurricular			2,284		2,284
Customer services	6,416,654	3,144,625	158,861		9,720,140
Rental income	88,558		7,395		95,953
Contributions and donations	50		13,630		13,680
Other local revenues	50,060		109,806		159,866
Intergovernmental - state	2,791,559		57,050	1,244,251	4,092,860
Intergovernmental - federal				3,316,126	3,316,126
Total revenues	16,562,048	3,146,745	572,206	4,562,817	24,843,816
Expenditures:					
Current:					
Instruction:					
Regular	28,587		1,559	10,306	40,452
Special	5,140,560	381,922	20,561	251,635	5,794,678
Vocational	96,724		17,554		114,278
Adult/continuing			11,963	40,382	52,345
Other	160,536				160,536
Support services:					
Pupil	4,794,985	186,144	89,397	717,232	5,787,758
Instructional staff	2,006,024		459,455	2,557,489	5,022,968
Board of education	27,876				27,876
Administration	2,163,857	25,696	166,832	353,542	2,709,927
Fiscal	1,008,533		17,500	159,438	1,185,471
Business	65,236		159		65,395
Operations and maintenance	955,771		7,379	199,488	1,162,638
Pupil transportation	1,866		584		2,450
Central	258,712			7,575	266,287
Operation of non-instructional services:					
Other non-instructional services	152,941	2,639,007	134,348	223,297	3,149,593
Food service operations				27,411	27,411
Extracurricular activities			700		700
Facilities acquisition and construction	100,895		10,129	2,440	113,464
Debt service:					
Principal retirement	1,963				1,963
Interest and fiscal charges	546				546
Total expenditures	16,965,612	3,232,769	938,120	4,550,235	25,686,736
Excess (deficiency) of revenues over (under) expenditures	(403,564)	(86,024)	(365,914)	12,582	(842,920)
Other financing sources (uses):					
Transfers in		25,000	141,882	27,423	194,305
Transfers (out)	(194,305)				(194,305)
Total other financing sources (uses)	(194,305)	25,000	141,882	27,423	
Net change in fund balances	(597,869)	(61,024)	(224,032)	40,005	(842,920)
Fund balances at beginning of year (restated)	2,978,145	310,336	1,196,767	220,462	4,705,710
Fund balances at end of year	\$ 2,380,276	\$ 249,312	\$ 972,735	\$ 260,467	\$ 3,862,790

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

Net change in fund balances - total governmental funds \$ (842,920)

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 depreciation expense exceeded capital outlay in the current period.

Capital asset additions	123,789	
Current year depreciation	<u>(252,966)</u>	
Total		(129,177)

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

Tuition revenue	3,476	
Earnings on investments	(21,245)	
Customer services revenue	118,251	
Other local revenues	4,506	
Intergovernmental revenue	<u>80,377</u>	
Total		185,365

Repayment capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 1,963

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. (8,109)

Change in net assets of governmental activities \$ (792,878)

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, 2011

	Agency
Assets:	
Current assets:	
Equity in pooled cash and cash equivalents	\$ 191,105
Receivables:	
Intergovernmental.	4,022
 Total assets.	 \$ 195,127
 Liabilities:	
Accounts payable.	\$ 3,717
Accrued wages and benefits	23,759
Intergovernmental payable	109,296
Compensated absences.	52,489
Pension obligation payable.	5,866
 Total liabilities	 \$ 195,127

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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 6 administrators, 4 coordinators, 230 full-time and part-time certified employees, and 93 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).

As of June 30, 2011, 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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Effective January 1, 2012, the Lucas County Educational Service Center will change its name to the Educational Service Center of Lake Erie West.

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.

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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The NWOEC Program has an agreement with Arthur J. Gallagher Risk Management Services, Inc. for administrative services and Cambridge Integrated Services, Inc. for claims processing. The Center paid \$58,068 for these services to the NWOEC Program in fiscal year 2011. To obtain financial information write to Steve Privasky, LIC, Arthur J. Gallagher Risk Management Services, Inc., 300 Ottawa, NW, Suite 301, Grand Rapids, MI, 49503.

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 two categories of funds: governmental 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 and report all financial resources not accounted for and reported 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.

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 specific revenue sources that are restricted or committed to expenditures for specified purposes.

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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Center invested funds in repurchase agreements and the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2011. Investments in repurchase agreements are reported at cost. 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.

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 2011 amounted to \$52,601, which includes \$2,068 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.

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2011, 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, 2011 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance

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

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are not in spendable form or legally required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of loans receivable.

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

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

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Center for specific purposes but do not meet the criteria to be classified as restricted nor committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the general fund, assigned amounts represent intended uses established by policies of the Board of Education, which includes giving the Treasurer the authority to constrain monies for intended purposes.

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

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Budget Stabilization Arrangement

The Center has established a budget stabilization reserve in accordance with authority established by State law. Additions to the budget stabilization reserve can only be made by formal resolution of the Board of Education. Expenditures out of the budget stabilization reserve can be made to offset future budget deficits or expenditures as approved by the Board of Education. At June 30, 2011, the balance in the budget stabilization reserve was \$162,679. This amount is included in unassigned fund balance of the general fund and in unrestricted net assets on the statement of net assets.

L. 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.

M. 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.

N. 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.

O. 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 2011.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2011, the Center has implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions", and GASB Statement No. 59, "Financial Instruments Omnibus".

GASB Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. GASB Statement No. 54 also clarifies the definitions of governmental fund types.

GASB Statement No. 59 updates and improves guidance for financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 did not have an effect on the financial statements of the Center.

B. Fund Reclassification

A fund reclassification is required in order to report funds in accordance with GASB Statement No 54. The fund reclassification had the following effect on the Center's governmental fund balances as previously reported:

	General	Auxiliary Services	Community School Operations	Other Grants	Nonmajor Governmental	Total Governmental
Fund balance as previously reported	\$ 2,202,859	\$ 310,336	\$ 775,286	\$ 1,196,767	\$ 220,462	\$ 4,705,710
Fund reclassification: Community school operations	<u>775,286</u>	<u> </u>	<u>(775,286)</u>	<u> </u>	<u> </u>	<u> </u>
Restated fund balance at July 1, 2010	<u>\$ 2,978,145</u>	<u>\$ 310,336</u>	<u> </u>	<u>\$ 1,196,767</u>	<u>\$ 220,462</u>	<u>\$ 4,705,710</u>

The fund reclassification did not have an effect on net assets as previously reported.

C. Deficit Fund Balances

Fund balances at June 30, 2011 included the following individual fund deficits:

<u>Nonmajor funds</u>	<u>Deficit</u>
Public school preschool	\$ 103
Traffic safety	3,304
Miscellaneous federal grants	58,272

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE (Continued)

The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balance in the public school preschool nonmajor special revenue fund resulted from adjustments for accrued liabilities. The deficit fund balances in the traffic safety and miscellaneous federal grants nonmajor special revenues resulted from negative cash balances outstanding at June 30, 2011. The negative fund cash balances were a result of grant monies that were requested but not received by fiscal year-end for the reimbursement of expenditures.

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.

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;

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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.

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, 2011, the carrying amount of all the Center deposits was \$4,607,908. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2011, \$2,623,884 of the Center's bank balance of \$4,765,575 was exposed to custodial risk as discussed below, while \$2,141,691 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

B. Investments

As of June 30, 2011, the Center had the following investment:

<u>Investment type</u>	<u>Fair Value</u>	<u>Investment Maturity 6 months or less</u>
Repurchase agreement	<u>\$ 658,843</u>	<u>\$ 658,843</u>

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: The Center's investments in the federal agency securities that underlie the repurchase agreement were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. 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 federal agency securities are exposed to custodial credit risk in that they are uninsured, unregistered and held by the counterparty's trust department or agent, but not in the Center's name. Of the Center's \$658,843 investment in repurchase agreements, the entire balance is collateralized by underlying securities that are held by the investment's counterparty, not in the name of the Center. Ohio law requires the market value of the securities subject to repurchase agreements must exceed the principal value of securities subject to a repurchase agreement by 2%. 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>
Repurchase agreement	<u>\$ 658,843</u>	<u>100.00</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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, 2011:

<u>Cash and investments per note</u>	
Carrying amount of deposits	\$ 4,607,908
Investments	<u>658,843</u>
Total	<u>\$ 5,266,751</u>

<u>Cash and investments per statement of net assets</u>	
Governmental activities	\$ 5,075,646
Agency fund	<u>191,105</u>
Total	<u>\$ 5,266,751</u>

NOTE 5 - INTERFUND TRANSACTIONS

A. Interfund transfers for the fiscal year ended June 30, 2011, consisted of the following, as reported on the fund financial statements:

<u>Transfers from general fund to:</u>	<u>Amount</u>
Auxiliary services	\$ 25,000
Other grants	141,882
Nonmajor governmental funds	<u>27,423</u>
Total transfers	<u>\$ 194,305</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.

B. Interfund balances at June 30, 2011 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	\$ 93,561

The primary purpose of the due to/from other funds is to cover the negative cash balances at fiscal year- end in the miscellaneous state grants, traffic safety, improving teacher quality, and miscellaneous federal grants 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
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at June 30, 2011 consisted of accounts (billings for user charged services and student fees), intergovernmental grants and entitlements, and accrued interest. A summary of the items of receivables reported on the statement of net assets follows:

Governmental activities:

Accounts	\$ 13,300
Intergovernmental	1,441,281
Accrued interest	<u>3,732</u>
Total	<u>\$ 1,458,313</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, 2011, was as follows:

	Balance 06/30/10	Additions	Deductions	Balance 06/30/11
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	3,132,164	45,730		3,177,894
Improvements other than buildings	8,421			8,421
Furniture, fixtures, and equipment	1,826,506	78,059		1,904,565
Vehicles	34,573			34,573
Total capital assets, being depreciated	<u>5,001,664</u>	<u>123,789</u>		<u>5,125,453</u>
<i>Less: accumulated depreciation</i>				
Buildings and improvements	(307,949)	(105,103)		(413,052)
Improvements other than buildings	(3,194)	(421)		(3,615)
Furniture, fixtures, and equipment	(1,326,052)	(143,985)		(1,470,037)
Vehicles	(1,729)	(3,457)		(5,186)
Total accumulated depreciation	<u>(1,638,924)</u>	<u>(252,966)</u>		<u>(1,891,890)</u>
Governmental activities capital assets, net	<u>\$ 3,677,061</u>	<u>\$ (129,177)</u>		<u>\$ 3,547,884</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 7 - CAPITAL ASSETS (Continued)

Depreciation expense was charged to governmental functions as follows:

<u>Instruction:</u>	
Regular	\$ 1,081
Special	30,325
Vocational	483
Adult/continuing	2,210
<u>Support services:</u>	
Pupil	30,505
Instructional staff	115,459
Administration	14,495
Fiscal	7,498
Business	2,335
Operations and maintenance	25,588
Central	5,339
Operation of non-instructional services	<u>17,648</u>
Total depreciation expense	<u>\$ 252,966</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 \$1,963 and \$546, respectively on the capital lease during fiscal year 2011.

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>(3,240)</u>
<i>Total capital assets, being depreciated, net</i>	<u>\$ 7,560</u>

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 8 - CAPITAL LEASES - LESSEE DISCLOSURE (Continued)

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, 2011:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>
2012	\$ 2,509
2013	2,509
2014	2,509
2015	<u>1,255</u>
	8,782
Less: amount representing interest	<u>(892)</u>
Present value of minimum lease payments	<u>\$ 7,890</u>

NOTE 9 - LONG-TERM OBLIGATIONS

During fiscal year 2011, the following activity occurred in governmental activities long-term obligations:

	Balance Outstanding 06/30/10	Additions	Reductions	Balance Outstanding 06/30/11	Amounts Due in One Year
Governmental activities:					
Compensated absences	\$ 1,650,371	\$ 511,606	\$ (427,599)	\$1,734,378	\$ 504,157
Capital lease obligation	9,853		(1,963)	7,890	2,086
Total long-term obligations, governmental activities	<u>\$ 1,660,224</u>	<u>\$ 511,606</u>	<u>\$ (429,562)</u>	<u>\$1,742,268</u>	<u>\$ 506,243</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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 10 - RISK MANAGEMENT (Continued)

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
Auto liability (\$5,000 per person medical payments)	1,000,000
Crime	500,000
Public employee dishonesty	500,000
Boiler and machinery (\$2,500 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 "Media/Financial Reports".

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 11 - PENSION PLANS (Continued)

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 2011, 11.77 percent and 0.04 percent of annual covered salary was the portion used to fund pension obligations and death benefits, respectively. 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 and death benefits to SERS for the fiscal years ended June 30, 2011, 2010 and 2009 were \$403,130, \$466,414 and \$322,331, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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 website at www.strsoh.org, under "Publications".

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
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(Continued)**

NOTE 11 - PENSION PLANS (Continued)

Funding Policy - For fiscal year 2011, 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, 2011, 2010 and 2009 were \$1,674,185, \$1,695,174 and \$1,727,538, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009. Contributions to the DC and Combined Plans for fiscal year 2011 were \$92,053 made by the Center and \$65,752 made by the plan members.

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 2011 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 "*Media/Financial Reports*".

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 2011, 1.43 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 2011, the actuarially determined amount was \$35,800.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 12 - POSTEMPLOYMENT BENEFITS (Continued)

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, 2011, 2010, and 2009 were \$129,539, \$77,341 and \$213,211, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

The Retirement Board, acting with advice of the actuary, allocates a portion of the employer contribution to the Medicare B Fund. For fiscal year 2011, 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, 2011, 2010, and 2009 were \$25,942, \$27,737 and \$26,595, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

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, under "Publications" 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 2011, 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, 2011, 2010 and 2009 were \$128,783, \$130,298 and \$132,888, respectively; 100 percent has been contributed for fiscal years 2011, 2010 and 2009.

NOTE 13 - STATE AND LOCAL FUNDING

A. State Funding

State funding in Education Service Centers (ESCs) is provided to support basic operations and statutorily mandated services. It consists of two major categories - unit funding for gifted and preschool handicapped units and a per pupil allocation.

Unit Funding - Funding for an approved unit g is based on a 1) a salary allowance for the teacher, psychologist, etc. in charge of the unit, 2) a non-salary unit allowance for preschool classroom units, related services, and a gifted allowance, and 3) a supplemental unit allowance for classroom units, other preschool special education units, and for gifted units.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 13 - STATE AND LOCAL FUNDING (Continued)

Per Pupil Base Funding - Ohio Revised Code 3317.11(F) provides for the State to pay ESCs \$37 per pupil or \$40.52 per pupil for multi-county ESCs to help support their basic operations and provision of services to school districts, community schools, chartered non-public schools and county and State run juvenile detention facilities. The Average Daily Membership (ADM) is calculated as the K-12 ADM of member districts minus the E-school ADM minus the ADM of community schools that are sponsored by another ESC plus the ADM of community schools that are sponsored by the ESC in question plus the handicapped ADM.

B. Local Funding

Approximately two-thirds of the funding for ESCs comes from the member districts they serve through deductions or transfers that the Ohio Department of Education (ODE) makes out of State foundation to the ESCs. A number of calculations comprise this deduction.

Special Education Extended Service - Since the State stopped paying for extended service, special education extended service has become a local responsibility. It is paid at the daily rate on the minimum salary schedule, plus a fringe allowance up to a maximum number of days.

Supervisory Allowance - One of the major services provided by ESCs since their inception has been supervisory services for local districts. Each city or exempted village school district that enters into an agreement for services from an ESC under Section 3313.843 of the Ohio Revised Code also is considered to be provided supervisory services by the ESC. Supervisory services are financed annually through supervisory units, the cost of which is determined by a formula in statute.

\$6.50 Per Pupil Deduction - The ODE annually deducts from each local and client school district of each ESC, pursuant to Division (E) of Section 3317.023 of the Ohio Revised Code, and pays to the ESC an amount equal to \$6.50 times the school district's total student county. The Board of Education of any local or client school may agree to pay an amount in excess of \$6.50 per student in total student count. If a majority of Boards of Education of local school districts within an ESCs territory approve an amount in excess of \$6.50 per student in total student county, the department shall deduct the approved excess per student amount from all of the local school districts with the ESCs territory and pay the excess amount to the ESC. ESCs must notify ODE with a signed resolution of agreement of any per pupil amounts in excess of \$6.50 so proper deductions can be made.

Service Contracts - Districts may set up service contracts with ESCs to pay for services above and beyond those covered by the above described funding sources. To receive payment pursuant to such contracts, or agreements, an ESC must furnish to the State a copy of the contract or written statement that clearly indicates the payments owed and is signed by the superintendent or treasurer of the responsible school district. These deductions are included in the ESC deduction of the foundation payment form. Instead of having contract amounts deducted by the State, ESCs may bill the districts directly. ESCs can also enter into agreements under Section 3313.844 of the Ohio Revised Code to provide services to community schools.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 14 - OTHER COMMITMENTS

The Center utilizes encumbrance accounting as part of its budgetary controls. Encumbrances outstanding at year end may be reported as part of restricted, committed, or assigned classifications of fund balance. At year end, the Center's commitments for encumbrances in the governmental funds were as follows:

	Year-End
Fund	Encumbrances
General	\$ 62,447
Auxiliary services	30,246
Other grants	32,431
Other governmental	<u>213,371</u>
Total	<u>\$ 338,495</u>

NOTE 15 - 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 material litigation as either plaintiff or defendant.

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**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, 2011

	<u>Budgeted Amounts</u>			Variance with
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	Final Budget Positive (Negative)
Revenues:				
From local sources:				
Tuition.	\$ 8,581,537	\$ 8,581,537	\$ 6,985,241	\$ (1,596,296)
Earnings on investments.	52,047	52,047	39,754	(12,293)
Charges for services.	1,504	1,504	1,114	(390)
Customer services.	2,479,736	2,479,736	2,881,626	401,890
Rentals.	130,116	130,116	88,558	(41,558)
Contributions and donations.	90	90	50	(40)
Other local revenues.	64,130	64,130	49,930	(14,200)
Intergovernmental - State	2,840,060	2,840,060	2,791,559	(48,501)
Total revenues.	<u>14,149,220</u>	<u>14,149,220</u>	<u>12,837,832</u>	<u>(1,311,388)</u>
Expenditures:				
Current:				
Instruction:				
Regular	39,085	31,337	28,480	2,857
Special.	6,030,743	5,559,870	5,172,755	387,115
Vocational.	93,515	101,250	96,364	4,886
Other.	107,557	157,750	159,971	(2,221)
Support services:				
Pupil.	4,629,738	4,896,476	4,777,261	119,215
Instructional staff	1,276,527	1,250,941	1,223,070	27,871
Board of education	36,760	40,270	28,017	12,253
Administration.	2,059,249	1,907,720	1,807,430	100,290
Fiscal	754,144	636,899	590,581	46,318
Business	105,525	119,053	77,320	41,733
Operations and maintenance.	947,203	1,081,614	928,470	153,144
Pupil transportation	3,569	2,000	1,984	16
Central.	210,020	189,815	179,188	10,627
Operation of non-instructional services	97,501	116,391	116,304	87
Facilities acquisition and construction.	349,261	87,516	90,766	(3,250)
Total expenditures	<u>16,740,397</u>	<u>16,178,902</u>	<u>15,277,961</u>	<u>900,941</u>
Excess of expenditures over revenues	<u>(2,591,177)</u>	<u>(2,029,682)</u>	<u>(2,440,129)</u>	<u>(410,447)</u>
Other financing sources (uses):				
Sale of assets	6,298	6,298		(6,298)
Transfers in.	1,789,781	1,789,781	1,857,642	67,861
Transfers (out)	(500,000)	(690,000)	(194,305)	495,695
Reduction of prior year expenditures.	33,224	33,224	114,114	80,890
Total other financing sources (uses)	<u>1,329,303</u>	<u>1,139,303</u>	<u>1,777,451</u>	<u>638,148</u>
Net change in fund balance	(1,261,874)	(890,379)	(662,678)	227,701
Fund balance at beginning of year	3,025,498	3,025,498	3,025,498	
Prior year encumbrances appropriated	123,147	123,147	123,147	
Fund balance at end of year	<u>\$ 1,886,771</u>	<u>\$ 2,258,266</u>	<u>\$ 2,485,967</u>	<u>\$ 227,701</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, 2011

	<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.	\$ 117	\$ 117	\$ 2,120	\$ 2,003
Customer services.	4,287,462	4,199,067	3,394,710	(804,357)
Total revenues.	<u>4,287,579</u>	<u>4,199,184</u>	<u>3,396,830</u>	<u>(802,354)</u>
Expenditures:				
Current:				
Instruction:				
Special.	334,836	389,203	378,064	11,139
Support services:				
Pupil.	164,801	191,559	186,077	5,482
Administration.	25,821	30,013	29,154	859
Operation of non-instructional services	2,400,640	2,790,422	2,710,565	79,857
Total expenditures	<u>2,926,098</u>	<u>3,401,197</u>	<u>3,303,860</u>	<u>97,337</u>
Excess of revenues over expenditures	<u>1,361,481</u>	<u>797,987</u>	<u>92,970</u>	<u>(705,017)</u>
Other financing sources:				
Transfers in.	25,000	25,000	25,000	
Reduction of prior year expenditures. . . .			687	687
Total other financing sources.	<u>25,000</u>	<u>25,000</u>	<u>25,687</u>	<u>687</u>
Net change in fund balance	1,386,481	822,987	118,657	(704,330)
Fund balance at beginning of year	289,037	289,037	289,037	
Prior year encumbrances appropriated . . .	127,610	127,610	127,610	
Fund balance at end of year	<u>\$ 1,803,128</u>	<u>\$ 1,239,634</u>	<u>\$ 535,304</u>	<u>\$ (704,330)</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, 2011

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Tuition.	\$ 139,960	\$ 139,960	\$ 130,340	\$ (9,620)
Classroom materials and fees	61,788	61,788	92,629	30,841
Extracurricular.	3,337	3,337	2,284	(1,053)
Rentals.	9,810	9,810	6,335	(3,475)
Customer services	178,546	178,546	159,821	(18,725)
Contributions and donations.	6,600	7,030	13,630	6,600
Other local revenues.	62,514	135,607	119,553	(16,054)
Intergovernmental - State	37,425	37,425	57,050	19,625
Total revenues.	<u>499,980</u>	<u>573,503</u>	<u>581,642</u>	<u>8,139</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,093	1,637	1,759	(122)
Special.	43,653	34,136	21,148	12,988
Vocational.	25,320	19,800	17,606	2,194
Adult/continuing.	15,506	12,125	12,011	114
Support services:				
Pupil.	131,698	102,985	88,297	14,688
Instructional staff	815,489	637,696	488,701	148,995
Administration.	358,994	280,726	166,634	114,092
Fiscal	28,921	22,616	17,500	5,116
Business	105	82	159	(77)
Operations and maintenance.	19,298	15,091	7,575	7,516
Pupil transportation	6,582	5,147	582	4,565
Central.	57,546	45,000	45,000	45,000
Operation of non-instructional services	216,494	169,294	133,297	35,997
Extracurricular activities.	33,663	26,324	700	(700)
Facilities acquisition and construction.	33,663	26,324	10,129	16,195
Total expenditures	<u>1,755,362</u>	<u>1,372,659</u>	<u>966,098</u>	<u>406,561</u>
Excess of expenditures over revenues.	<u>(1,255,382)</u>	<u>(799,156)</u>	<u>(384,456)</u>	<u>414,700</u>
Other financing sources (uses):				
Transfers in.	112,539	112,539	141,882	29,343
Reduction of prior year expenditures.	88	88	88	88
Total other financing sources (uses)	<u>112,539</u>	<u>112,539</u>	<u>141,970</u>	<u>29,431</u>
Net change in fund balance	(1,142,843)	(686,617)	(242,486)	444,131
Fund balance at beginning of year	1,171,155	1,171,155	1,171,155	
Prior year encumbrances appropriated	25,561	25,561	25,561	
Fund balance at end of year	<u>\$ 53,873</u>	<u>\$ 510,099</u>	<u>\$ 954,230</u>	<u>\$ 444,131</u>

SEE ACCOMPANYING NOTES TO THIS SCHEDULE

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**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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, 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:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) Encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to assigned or committed fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis);

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**BUDGETARY NOTES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(Continued)**

NOTE 2 - BUDGETARY BASIS OF ACCOUNTING - (Continued)

- (d) Advances-in and advances-out are operating transactions (budget basis) as opposed to balance sheet transactions (GAAP basis); and,
- (e) Some funds are included in the general fund (GAAP basis), but have separate adopted budgets (budget basis).

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>Other Grants</u>
Budget basis	\$ (662,678)	\$ 118,657	\$ (242,486)
Net adjustment for revenue accruals	175,279	(250,085)	(9,436)
Net adjustment for expenditure accruals	(120,950)	23,381	(2,611)
Net adjustment for other sources/(uses)	(114,114)	(687)	(88)
Fund budgeted elsewhere*	51,738		
Adjustment for encumbrances	<u>72,856</u>	<u>47,710</u>	<u>30,589</u>
GAAP basis	<u>\$ (597,869)</u>	<u>\$ (61,024)</u>	<u>\$ (224,032)</u>

*The community school operations fund, which is legally budgeted in a separate special revenue fund, is considered part of the general fund on a GAAP basis.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through Ohio Department of Education:</i>			
<u>Nutrition Cluster:</u>			
National School Lunch Program	10.555	\$ 16,876	\$ 16,876
School Breakfast Program	10.553	7,316	7,316
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>24,192</u>	<u>24,192</u>
U.S. DEPARTMENT OF TRANSPORTATION			
<i>Passed Through Ohio Department of Public Safety:</i>			
<u>Highway Safety Cluster:</u>			
State and Community Highway Safety	20.600	44,824	58,842
Incentive Grant Program to Increase Motorcyclist Safety	20.612		3,000
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		<u>44,824</u>	<u>61,842</u>
U.S. DEPARTMENT OF DEFENSE			
<i>Direct Assistance</i>			
Jr R.O.T.C.	12.XXX	67,533	67,533
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through Ohio Department of Education:</i>			
ARRA - Title I Grants to Local Education Agencies	84.389	3,394	6,353
<u>Special Education Cluster:</u>			
Special Education_Grants to States (IDEA, Part B)	84.027	2,074,257	2,076,887
Special Education_Grants to States (IDEA, Part B): Parent Mentoring	84.027	32,931	26,665
<i>Total Special Education Grants to States</i>		<u>2,107,188</u>	<u>2,103,552</u>
Special Education_Preschool Grants (IDEA, Part B)			
Early Childhood Special Education	84.173	111,794	109,401
ARRA - Special Education_Preschool Grants (IDEA, Part B)	84.392	108,729	91,340
Early Childhood Special Education			
<i>Total Special Education Cluster</i>		<u>2,327,710</u>	<u>2,304,293</u>
Special Education_State Personnel Development (IDEA, Part D)	84.323	38,187	37,679
Safe and Drug Free Schools and Communities_State Grants	84.186	14,661	7,263
Improving Teacher Quality State Grants: Toledo Diocese	84.367	146,602	158,049
Improving Teacher Quality State Grants: Resident Educator Transition	84.367A	35,000	24,171
Improving Teacher Quality State Grants: Center of Practice	84.367A	116,370	124,328
Improving Teacher Quality State Grants: Ohio Principal Evaluation System	84.367A	4,500	5,040
<i>Total Improving Teacher Quality State Grants</i>		<u>302,472</u>	<u>311,588</u>
Education Secondary Transition Specialist	84.235U	48,303	35,534
TOTAL U.S. DEPARTMENT OF EDUCATION		<u>2,734,727</u>	<u>2,702,710</u>
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES		<u>\$ 2,871,276</u>	<u>\$ 2,856,277</u>

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
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) reports the Lucas County Educational Service Center (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 basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County Educational Service Center, Lucas County, Ohio (the Center), as of and for the year ended June 30, 2011, which collectively comprise the Centers basic financial statements and have issued our report thereon dated March 8, 2012, wherein we noted the Center implemented Governmental Accounting Standards Board Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". 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 March 8, 2012.

We intend this report solely for the information and use of management, the audit committee, Governing Board, federal awarding agencies, 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

March 8, 2012



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, Lucas County, Ohio (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 could directly and materially affect each of the Center's major federal programs for the year ended June 30, 2011. 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 opine on the Center's compliance based on our audit.

Our compliance audit followed 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*. These 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 these 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 these requirements.

In our opinion, Lucas County Educational Service Center, Lucas County, Ohio complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended June 30, 2011.

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, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over 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.



Dave Yost
Auditor of State

March 8, 2012

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2011**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	No
<i>(d)(1)(vii)</i>	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 Improving Teacher Quality State Grants – CFDA # 84.367
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	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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Dave Yost • Auditor of State

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 22, 2012