



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

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REPORT OF INDEPENDENT ACCOUNTANTS

Lucas County Educational Service Center
415 Emerald Avenue, 2nd Floor
Toledo, Ohio 43602-1817

To the Educational Service Center:

We have audited the accompanying general-purpose financial statements of the Lucas County Educational Service Center (Lucas ESC) as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of Lucas ESC's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Lucas ESC, Lucas County, as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2002, on our consideration of Lucas ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

We performed our audit to form an opinion on the general-purpose financial statements of Lucas ESC, taken as a whole. The accompanying schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

Jim Petro
Auditor of State

January 29, 2002

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,886,295	\$2,660,727	\$36,980
Investments	200,574		
Receivables:			
Accounts	297,232	3,463	
Intergovernmental		582,940	
Accrued Interest	48,846	1,951	
Prepaid Items	15,648		
Fixed Assets (Net, where applicable, of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	\$5,448,595	\$3,249,081	\$36,980
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$19,575	\$265,380	\$987
Accrued Wages and Benefits	666,855	358,193	
Compensated Absences Payable	157,795	15,386	
Intergovernmental Payable	89,414	52,702	
Undistributed Monies			
Deferred Revenue		405,624	
Total Liabilities	933,639	1,097,285	987
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Fund Balance:			
Reserved for Encumbrances	57,958	313,307	297
Reserved for Prepaid Items	15,648		
Unreserved, Undesignated	4,441,350	1,838,489	35,696
Total Fund Equity and Other Credits	4,514,956	2,151,796	35,993
Total Liabilities, Fund Equity and Other Credits	\$5,448,595	\$3,249,081	\$36,980

See accompanying Notes to the General-Purpose Financial Statements.

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
	\$1,547,740		\$9,131,742 200,574
	904		301,599 582,940 50,797 15,648
	\$1,235,256		1,235,256
		\$719,342	719,342
	\$1,548,644	\$719,342	\$12,237,898

	\$16,455		\$302,397
	6,775		1,031,823
	1,733	\$636,490	809,671
	1,523,681	82,852	226,701
			1,523,681 405,624
	1,548,644	719,342	4,299,897
	\$1,235,256		1,235,256
			371,562 15,648 6,315,535
	1,235,256		7,938,001
	\$1,548,644	\$719,342	\$12,237,898

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2001**

	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Type</u>	Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
Revenues:					
Intergovernmental	\$6,507,594	\$2,758,609			\$9,266,203
Interest	575,397	20,183			595,580
Tuition	1,516,294	254,099			1,770,393
Customer Services	2,712,371	2,435,845			5,148,216
Food Services	2,825				2,825
Classroom Materials and Fees	51,282	17,777			69,059
Transportation Fees	223,488				223,488
Miscellaneous	462,854	99,709			562,563
Total Revenues	<u>12,052,105</u>	<u>5,586,222</u>			<u>17,638,327</u>
Expenditures:					
Current:					
Instruction:					
Regular	157,386	115,053			272,439
Special	5,125,182	151,513			5,276,695
Vocational	59,894				59,894
Adult/Continuing Education		13,589			13,589
Support Services:					
Pupils	1,553,078	951,772			2,504,850
Instructional Staff	1,663,182	1,143,832	\$42,468		2,849,482
Board of Education	22,088				22,088
Administration	1,948,230	172,960			2,121,190
Fiscal	474,761	4,671	250		479,682
Business	206,489	7,606			214,095
Operation and Maintenance of Plant	460,653	69,082			529,735
Pupil Transportation	211,292	14,224			225,516
Central	135,113	2,747			137,860
Operation of Non-Instructional Services	16,150	2,602,422			2,618,572
Intergovernmental		438,166			438,166
Total Expenditures	<u>12,033,498</u>	<u>5,687,637</u>	<u>42,718</u>		<u>17,763,853</u>
Excess of Revenues Over (Under) Expenditures	<u>18,607</u>	<u>(101,415)</u>	<u>(42,718)</u>		<u>(125,526)</u>
Other Financing Sources (Uses):					
Proceeds from the Sale of Assets	4,345				4,345
Refund of Prior Year Expenditures	43,916	2,000			45,916
Transfers-In	1,387,705	32,049			1,419,754
Transfers-Out	<u>(30,621)</u>	<u>(32,499)</u>	<u>(1,355,205)</u>	<u>(\$1,429)</u>	<u>(1,419,754)</u>
Total Other Financing Sources (Uses)	<u>1,405,345</u>	<u>1,550</u>	<u>(1,355,205)</u>	<u>(1,429)</u>	<u>50,261</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	1,423,952	(99,865)	(1,397,923)	(1,429)	(75,265)
Fund Balances (Deficit) at Beginning of Year	<u>3,091,004</u>	<u>2,251,661</u>	<u>1,433,916</u>	<u>1,429</u>	<u>6,778,010</u>
Fund Balances at End of Year	<u>\$4,514,956</u>	<u>\$2,151,796</u>	<u>\$35,993</u>		<u>\$6,702,745</u>

See accompanying Notes to the General-Purpose Financial Statements.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
Revenues:			
Intergovernmental	\$6,282,207	\$6,514,068	\$231,861
Earnings on Investments	510,000	561,004	51,004
Food Services		2,824	2,824
Tuition	1,415,021	1,468,805	53,784
Customer Services	2,349,006	2,843,780	494,774
Classroom Material and Fees		51,347	51,347
Transportation Fees	219,835	261,488	41,653
Miscellaneous	233,179	447,044	213,865
Total Revenues	11,009,248	12,150,360	1,141,112
Expenditures:			
Current:			
Instruction:			
Regular	264,488	157,321	107,167
Special	5,938,825	5,128,175	810,650
Vocational	97,673	66,756	30,917
Adult Education			
Support Services:			
Pupils	1,670,753	1,523,948	146,805
Instructional Staff	2,071,958	1,688,982	382,976
Board of Education	41,131	20,746	20,385
Administration	2,544,038	2,062,610	481,428
Fiscal	518,876	465,850	53,026
Business	247,898	206,777	41,121
Operation and Maintenance of Plant	796,020	469,098	326,922
Pupil Transportation	307,398	216,776	90,622
Central	326,260	184,243	142,017
Operation of Non-Instructional Services	21,293	16,752	4,541
Capital Outlay	1,000		1,000
Total Expenditures	14,847,611	12,208,034	2,639,577
Excess of Revenues Over (Under) Expenditures	(3,838,363)	(57,674)	3,780,689
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets		4,345	4,345
Refund of Prior Year Expenditures		44,498	44,498
Pass-Through	(62,774)		62,774
Operating Transfers In		1,421,620	1,421,620
Operating Transfers Out	(69,539)	(64,536)	5,003
Total Other Financing Sources (Uses)	(132,313)	1,405,927	1,538,240
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,970,676)	1,348,253	5,318,929
Fund Balances at Beginning of Year	3,592,157	3,592,157	
Prior Year Encumbrances Appropriated	83,643	83,643	
Fund Balances (Deficit) at End of Year	(\$294,876)	\$5,024,053	\$5,318,929

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001
 (Continued)

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$1,284,493	\$3,129,004	\$1,844,511
Earnings on Investments		18,232	18,232
Food Services			
Tuition		256,414	256,414
Customer Services	14,000	2,535,434	2,521,434
Classroom Material and Fees		18,688	18,688
Transportation Fees			
Miscellaneous	52,787	109,626	56,839
Total Revenues	<u>1,351,280</u>	<u>6,067,398</u>	<u>(4,716,118)</u>
Expenditures:			
Current:			
Instruction:			
Regular	236,122	163,086	73,036
Special	633,763	426,301	207,462
Vocational			
Adult Education	13,800	13,589	211
Support Services:			
Pupils	1,077,987	950,793	127,194
Instructional Staff	1,033,951	1,468,000	(434,049)
Board of Education			
Administration	288,564	205,945	82,619
Fiscal	23,471	4,671	18,800
Business	16,470	7,730	8,740
Operation and Maintenance of Plant	67,237	69,589	(2,352)
Pupil Transportation	21,936	14,420	7,516
Central	2,747	2,747	
Operation of Non-Instructional			
Services	2,782,595	2,781,583	1,012
Capital Outlay			
Total Expenditures	<u>6,198,643</u>	<u>6,108,454</u>	<u>90,189</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,847,363)</u>	<u>(41,056)</u>	<u>4,806,307</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures		2,000	2,000
Pass-Through			
Operating Transfers In		32,049	32,049
Operating Transfers Out	(32,499)	(32,499)	
Total Other Financing Sources (Uses)	<u>(32,499)</u>	<u>1,550</u>	<u>34,049</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(4,879,862)</u>	<u>(39,506)</u>	<u>4,840,356</u>
Fund Balances at Beginning of Year	2,191,216	2,191,216	
Prior Year Encumbrances Appropriated	116,700	116,700	
Fund Balances (Deficit) at End of Year	<u>(\$2,571,946)</u>	<u>\$2,268,410</u>	<u>\$4,840,356</u>

Capital Projects Funds			Expendable Trust Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$86,412	\$50,834	\$35,578			
250	250				
86,662	51,084	35,578			
(86,662)	(51,084)	35,578			
(1,355,205)	(1,355,205)		(\$1,429)	(\$1,429)	
(1,355,205)	(1,355,205)		(1,429)	(1,429)	
(1,441,867)	(1,406,289)	35,578	(1,429)	(1,429)	
1,442,971	1,442,971		1,429	1,429	
\$1,104	\$36,682	\$35,578			

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL COMPARISON (NON-GAAP BUDGETARY BASIS)
 ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2001
 (Continued)

	Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$7,566,700	\$9,643,072	\$2,076,372
Earnings on Investments	510,000	579,236	69,236
Food Services		2,824	2,824
Tuition	1,415,021	1,725,219	310,198
Customer Services	2,363,006	5,379,214	3,016,208
Classroom Material and Fees		70,035	70,035
Transportation Fees	219,835	261,488	41,653
Miscellaneous	285,966	556,670	270,704
Total Revenues	<u>12,360,528</u>	<u>18,217,758</u>	<u>5,857,230</u>
Expenditures:			
Current:			
Instruction:			
Regular	500,610	320,407	180,203
Special	6,572,588	5,554,476	1,018,112
Vocational	97,673	66,756	30,917
Adult Education	13,800	13,589	211
Support Services:			
Pupils	2,748,740	2,474,741	273,999
Instructional Staff	3,192,321	3,207,816	(15,495)
Board of Education	41,131	20,746	20,385
Administration	2,832,602	2,268,555	564,047
Fiscal	542,597	470,771	71,826
Business	264,368	214,507	49,861
Operation and Maintenance of Plant	863,257	538,687	324,570
Pupil Transportation	329,334	231,196	98,138
Central	329,007	186,990	142,017
Operation of Non-Instructional Services	2,803,888	2,798,335	5,553
Capital Outlay	1,000		1,000
Total Expenditures	<u>21,132,916</u>	<u>18,367,572</u>	<u>2,765,344</u>
Excess of Revenues Over (Under) Expenditures	<u>(8,772,388)</u>	<u>(149,814)</u>	<u>8,622,574</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets		4,345	4,345
Refund of Prior Year Expenditures		46,498	46,498
Pass-Through	(62,774)		62,774
Operating Transfers In		1,453,669	1,453,669
Operating Transfers Out	(1,458,672)	(1,453,669)	5,003
Total Other Financing Sources (Uses)	<u>(1,521,446)</u>	<u>50,843</u>	<u>1,572,289</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(10,293,834)</u>	<u>(98,971)</u>	<u>10,194,863</u>
Fund Balances at Beginning of Year	7,227,773	7,227,773	
Prior Year Encumbrances Appropriated	200,343	200,343	
Fund Balances (Deficit) at End of Year	<u>(\$2,865,718)</u>	<u>\$7,329,145</u>	<u>\$10,194,863</u>

See accompanying Notes to the General-Purpose Financial Statements.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001**

NOTE 1 - REPORTING ENTITY

Lucas County Educational Service Center (Lucas ESC) is located in Toledo, Ohio, the county seat. Lucas ESC 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. Lucas ESC furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

Lucas ESC operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four-year terms. Lucas ESC has nineteen administrators, seventy-five classified employees, and two hundred thirty-one certified employees who provide services to the local, exempted village, and city school districts.

A reporting entity is composed of the primary government, component units, and other organizations that are included to insure that the financial statements are not misleading. The primary government of Lucas ESC consists of all funds, departments, boards, and agencies that are not legally separate from Lucas ESC. For Lucas Educational Service Center, this includes general operations and student-related activities. Component units are legally separate organizations for which Lucas ESC is financially accountable. Lucas ESC is financially accountable for an organization if Lucas ESC appoints a voting majority of the organization's governing board and (1) Lucas ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) Lucas ESC is legally entitled to or can otherwise access the organization's resources; Lucas ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or Lucas ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on Lucas ESC in that Lucas ESC approves the budget, issues debt, or levies of taxes. Lucas ESC has no component units.

Lucas ESC is associated with two jointly governed organizations. These organizations are Penta Career Center and the Northwest Ohio Computer Association. These organizations are presented in Note 14 to the general-purpose financial statements.

As of June 30, 2001, Lucas ESC served as a fiscal agent for charter schools established under Chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of Lucas ESC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation - Fund Accounting

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

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special restrictions or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of Lucas ESC are grouped into the following generic fund types under the broad fund categories of governmental and fiduciary.

1. Governmental Fund Types

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

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

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

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

2. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by Lucas ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Lucas ESC's fiduciary funds include an expendable trust fund and agency funds. The expendable trust fund is accounted for in essentially the same manner as governmental funds. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

3. Account Groups

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

General Fixed Assets Account Group - This account group is established to account for all fixed assets of Lucas ESC.

General Long-Term Obligations Account Group - This account group is established to account for all long-term obligations of Lucas ESC.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

B. Measurement Focus and Basis of Accounting

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

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

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust and agency funds.

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 the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means 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 Lucas ESC, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which Lucas ESC 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 Lucas ESC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to Lucas ESC on a reimbursement basis. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

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

Deferred revenues arise when assets are recognized before revenue recognition criteria has been satisfied. Grants and entitlements received before the eligibility requirements are met and receivables that are not collected within the available period are recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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 the governmental funds.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

C. Budgetary Process

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

Lucas ESC legally adopts its budget for all funds, other than agency funds, on or before the start of the new fiscal year. Included in the budget are the estimated resources and expenditures for each fund. Upon review by Lucas ESC's Board, the annual appropriation resolution is adopted. After the start of the fiscal year, the estimated resources are revised and accepted by the Board to include any unencumbered cash balances from the preceding fiscal year. The estimated resources may be amended or supplemented throughout the year as circumstances warrant.

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

1. Estimated Resources

After the start of the fiscal year, estimated resources are revised to include any unencumbered balances from the preceding fiscal year. The revised estimated resources represent the maximum amount that may be appropriated from each fund. Estimated resources may be further amended during the year if projected increases or decreases in revenue are identified by the Treasurer or additional grant programs are approved by the board.

2. Appropriations

The annual appropriation resolution is legally enacted by Lucas ESC at the fund, function, and object level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, Lucas ESC may pass a temporary appropriation measure to meet the ordinary expenditures of Lucas ESC.

The appropriation resolution, by fund, must be within the estimated resources, and the total of expenditures and encumbrances may not exceed the appropriation totals at the legal level of control. Any revisions that alter the total of any fund appropriation, or alter total function appropriations within a fund, or alter object appropriations within functions must be approved by Lucas ESC's Board.

Lucas ESC may pass supplemental fund appropriations as long as the total appropriations by fund do not exceed the amounts set forth in the budget approved by the State Department of Education. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations. Formal budgetary integration is employed as a management control device during the year for all funds, except agency funds, consistent with statutory provisions.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

3. Encumbrances

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

4. Lapsing of Appropriations

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

D. Cash and Investments

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

During fiscal year 2001, investments were limited to repurchase agreements, nonnegotiable certificates of deposit, a Student Loan Mortgage Association (SLMA) medium-term note, a Federal Home Loan Mortgage Corporation (FHLMC) debenture bond, and STAR Ohio. Repurchase agreements and nonnegotiable certificates of deposit are reported at cost. The SLMA instrument was valued at market. The FHLMC instrument was called during fiscal year 2001. 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 share price, which is the price the investment could be sold for on June 30, 2001.

Following Ohio statutes, Lucas ESC has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2001 amounted to \$575,397, which includes \$227,512 assigned from other Lucas ESC funds.

For presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by Lucas ESC are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2001, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

F. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All fixed assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market value as of the date received. Lucas ESC maintains a capitalization threshold of two hundred fifty dollars.

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

Assets in the general fixed assets account group are not depreciated. Lucas ESC does not have any infrastructure.

G. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that Lucas ESC will compensate the employees for the benefits through paid time off or some other means. Lucas ESC records a liability for accumulated unused vacation time when earned for all employees.

Severance leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those Lucas ESC has identified as probable of receiving payment in the future. The amount is based on three days for each year of service and employees' wage rates at fiscal year end, taking into consideration any limits specified in Lucas ESC's severance policy. Lucas ESC records a liability for accumulated severance leave for all employees who have ten years of current service with Lucas ESC and who are fifty years of age or older.

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

H. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after fiscal year end are considered not to have used current available financial resources.

I. Fund Balance Reserves

Lucas ESC records reservations for portions of fund equity which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. A fund equity reserve has been established for prepaid items and encumbrances.

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

J. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred.

Lucas ESC currently participates in several State and Federal programs, categorized as follows:

Entitlements

General Fund

State Foundation Program

Reimbursable Grants

Special Revenue Funds

Adult Education
Motorcycle Safety

Non-Reimbursable Grants

General Fund

Junior ROTC Program

Special Revenue Funds

Teacher Development
TOPS Program
Education Management Information Systems
Public School Preschool Accreditation
Entry Year Programs
School Net - Professional Development
Ohio Reads
Summer Intervention Reading Institute
Job Training/Private Industry Council
Eisenhower
Drug Free
Preschool Diagnostic
Alternative Education Opportunity
Alternate Education State Grant
Interpreter Grant
Substance Abuse Program
Character Education Grant ALCC
Traffic Safety Consortium
High Schools that Work
PRC Grant
WIA Program

Capital Projects Fund

SchoolNet

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)

Grants and entitlements amounted to approximately 52 percent of the revenues of Lucas ESC's governmental fund types during the 2001 fiscal year.

K. Flow Through Grants

Lucas ESC is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When Lucas ESC has a financial or administrative role in the grants, the grants are reported as revenues and intergovernmental expenditures in the special revenue fund type. For fiscal year 2001, these funds included the Professional Development, Eisenhower, and Drug Free special revenue funds.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

M. Estimates

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

N. Total Columns on General-Purpose Financial Statements

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

NOTE 3 - ACCOUNTABILITY AND COMPLIANCE

A. Compliance

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2001.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue:			
Instructional Staff	\$1,033,951	\$1,468,000	(\$434,049)
Operation and Maintenance of Plant	67,237	69,589	(\$2,352)

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

B. Fiscal Officer Certification

Lucas ESC made purchases during the fiscal year without proper certification of the fiscal officer prior to obligations being incurred. Lucas ESC is working to remedy this situation in the future.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types			
	General	Special Revenue	Capital Projects
Budget Basis	\$1,348,253	(\$39,506)	(\$1,406,289)
<u>Increase (Decrease) Due to:</u>			
Revenue Accruals	(132,752)	(481,177)	
Expenditure Accruals	148,975	28,501	8,069
Encumbrances Outstanding at Year End (Budget Basis)	59,476	392,317	297
GAAP Basis	\$1,423,952	(\$99,865)	(\$1,397,923)

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

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

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

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

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

1. United States Treasury bills, bonds, notes, 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 obligation or security 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and the 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 Lucas ESC, 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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Deposits

At fiscal year end, the carrying amount of Lucas ESC's deposits was \$852,891, and the bank balance was \$3,004,528. Of the bank balance, \$1,085,000 was covered by federal depository insurance, \$1,500,000 by an Ohio Depository Bond, and \$419,528 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject Lucas ESC to a successful claim by the FDIC.

Investments

Lucas ESC's investments are categorized below to give an indication of the level of risk assumed by Lucas ESC at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by Lucas ESC or its agent in Lucas ESC's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in Lucas ESC's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent but not in Lucas ESC's name. Lucas ESC's investment in STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	<u>Category 1</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Repurchase Agreements		\$406,908	\$406,908	\$406,908
Student Loan Mortgage Assn.-Note	\$200,000		200,574	200,574
STAR Ohio			7,871,943	7,871,943
Total	<u>\$200,000</u>	<u>\$406,908</u>	<u>\$8,479,425</u>	<u>\$8,479,425</u>

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

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

	<u>Cash and Cash Equivalents/ Deposits</u>	<u>Investments</u>
GASB Statement No. 9	\$9,131,742	\$200,574
Investments:		
Repurchase Agreements	(406,908)	406,908
STAR Ohio	<u>(7,871,943)</u>	<u>7,871,943</u>
GASB Statement No. 3	<u>\$852,891</u>	<u>\$8,479,425</u>

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 2001
(Continued)**

NOTE 6 - STATE FUNDING

Lucas ESC is funded by the State Department of Education for the cost of Part (A) of their budget. This funding is provided from State resources.

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

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

NOTE 7 - RECEIVABLES

Receivables at June 30, 2000, consisted of accounts (billings for user charged services), intergovernmental grants, and accrued interest. All receivables are considered collectible in full due to the stable condition of State programs and the current year guarantee of federal funds. A summary of the principal items of accounts and intergovernmental receivables follows:

	Amounts
<u>Accounts Receivable</u>	
General Fund	\$297,232
Special Revenue	3,463
Agency	904
Total Accounts Receivable	\$301,599
<u>Intergovernmental Receivables</u>	
Special Revenue Funds:	
Adult Education	\$200
Career Tech	13,375
State and Community Highway Safety	33,069
Preschool Diagnostic	26,036
Eisenhower Grant	102,507
Workplace Initiative Assistance	123,236
Safe and Drug Free Schools	124,517
High Schools that Work	160,000
Total Intergovernmental Receivables	\$582,940
<u>Accrued Interest Receivable</u>	
General Fund	\$48,846
Special Revenue Funds	1,951
Total Accrued Interest Receivable	\$50,797

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JUNE 30, 2001
(Continued)**

NOTE 8 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2001 follows:

<u>Asset Category</u>	<u>Balance at 6/30/2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2001</u>
Buildings	\$153,228			\$153,228
Improvements Other Than Buildings	1,953			1,953
Furniture, Fixtures, and Equipment	956,449	\$72,167		1,028,616
Vehicles	45,056	6,403		51,459
Totals	\$1,156,686	\$78,570		\$1,235,256

NOTE 9 - RISK MANAGEMENT

Lucas ESC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2001, Lucas ESC contracted for the following insurance coverages.

Coverages provided by Dussel Insurance Agency:	
Commercial Property (\$250 deductible)	\$653,000
Coverages provided by Harcum-Hyre Insurance Agency:	
General Liability	
Per Occurrence	2,000,000
Aggregate	5,000,000
Business Auto	2,000,000
Employee Benefits Liability	500,000

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

NOTE 10 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

Lucas ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides basic retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 45 North Fourth Street, Columbus, Ohio 43215-3634 or by calling (614) 222-5853.

Plan members are required to contribute 9 percent of their annual covered salary and Lucas ESC is required to contribute an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.5 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. Lucas ESC's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2001, 2000, and 1999, were \$246,295, \$293,021, and \$371,058, respectively; 87.06 percent has been contributed for fiscal year 2001 and 100 percent for

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

the fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$31,875, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. State Teachers Retirement System

Lucas ESC contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, survivor, and health care benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

Plan members are required to contribute 9.3 percent of their annual covered salary and Lucas ESC is required to contribute 14 percent; 9.5 percent was the portion used to fund pension obligations. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Lucas ESC's required contribution to STRS for the years ended June 30, 2001, 2000, and 1999, were \$1,266,298, \$1,230,343, and \$1,122,029, respectively; 90.50 percent has been contributed for fiscal year 2001, and 100 percent for fiscal years 2000 and 1999. The unpaid contribution for fiscal year 2001, in the amount of \$120,351 is recorded as a liability within respective funds and the general long-term obligations account group.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As of June 30, 2001, one member of the Board of Education has elected Social Security. Lucas ESC's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

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

The State Teachers Retirement Board has authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2001, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Lucas ESC, this amount equaled \$401,099 for the fiscal year ended June 30, 2001.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,419 million at June 30, 2000 (the latest information available). For the fiscal year ended June 30,

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

2000, net health care costs paid by STRS were \$283,137,000, and STRS had 99,011 eligible benefit recipients.

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

For this fiscal period, employer contributions to fund health care benefits were 8.45 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2001, the minimum pay has been established at \$12,400. For Lucas ESC, the amount to fund health care benefits, including the surcharge, was \$191,561 for the fiscal year ended June 30, 2001.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation is derived from negotiated agreements and State laws. Employees who work year round earn twenty days of vacation per fiscal year, after one year of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time.

Teachers, administrators, and classified employees earn three severance days for each year of service up to a maximum of ninety days. Upon retirement, payment is made for up to three days per year worked up to a maximum of ninety days for all employees.

B. Health Care Benefits

Lucas ESC has elected to offer medical benefits through Paramount Health Care, dental benefits through Delta Dental Plan of Ohio, and vision benefits through Vision Service Plan to all full-time employees. Lucas ESC also offers life insurance to all employees through the Ohio School Boards Association.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in Lucas ESC's long-term obligations during fiscal year 2000 were as follows:

	<u>Balance at 6/30/2000</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 6/30/2001</u>
Compensated Absences Payable	\$491,870	\$144,620		\$636,490
Intergovernmental Payable	94,147		\$11,295	82,852
Total General Long-Term Obligations	<u>\$586,017</u>	<u>\$144,620</u>	<u>\$11,295</u>	<u>\$719,342</u>

Compensated absences and intergovernmental payables, representing Lucas ESC's contractually required pension contributions, will be paid from the fund from which the employees' salaries are paid.

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**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)**

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Penta Career Center

Penta Career Center (Penta) is a distinct political subdivision of the State of Ohio which provides vocational education to students. Penta 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 Educational Service Centers, one each 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 Educational Service Centers and one from the Perrysburg Exempted Village School District. Lucas ESC's payments to Penta for the period ended June 30, 2000, totaled \$600. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Penta Career Center, Mrs. Carrie Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

B. Northwest Ohio Computer Association

Lucas ESC is a participant in the Northwest Ohio Computer Association (NWOCA), which is a computer consortium.

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. Lucas ESC's payments to NWOCA for the period ended June 30, 2000, totaled \$34,532. Financial information can be obtained from the Four County Career Center, Lois Knuth, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

NOTE 15 - STATE SCHOOL FUNDING DECISION

On September 6, 2001, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision identified aspects of the current plan that require modification if the plan is to be considered constitutional, including:

- A change in the school districts that are used as the basis for determining the base cost support amount. Any change in the amount of funds distributed to school districts as a result of this change must be retroactive to July 1, 2001, although a time line for distribution is not specified.
- Fully funding parity aid no later than the beginning of fiscal year 2004 rather than fiscal year 2006.

The Supreme Court relinquished jurisdiction over the case based on anticipated compliance with its order.

In general, it is expected that the decision would result in an increase in State funding for most Ohio school districts. However, as of January 29, 2002, the Ohio General Assembly is still analyzing the impact this Supreme Court decision will have on funding for individual school districts. Further, the State of Ohio, in a motion filed September 17, 2001, asked the Court to reconsider and clarify the parts of the decision changing the school districts that are used as the basis for determining the base cost support amount and the requirement that changes be made retroactive to July 1, 2001.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS

JUNE 30, 2001

(Continued)

On November 2, 2001, the Court granted this motion for reconsideration. The Court may re-examine and redetermine any issue upon such reconsideration.

As of the date of these financial statements, Lucas ESC is unable to determine what effect, if any, this decision and the reconsideration will have on its future State funding and on its financial operations.

NOTE 16 - CONTINGENT LIABILITIES

A. Grants

Lucas ESC received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Lucas ESC at June 30, 2001.

B. Litigation

Lucas ESC is not a party to any litigation proceedings.

NOTE 17 - CHANGE IN ACCOUNTING PRINCIPLES

For fiscal year 2001, the Lucas ESC has implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the full accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis, the criteria established for full accrual basis revenue recognition must be met and the revenues must be available. For Lucas ESC, the implementation of these statements had no effect on fund balances/retained earnings as previously reported for the fiscal year ended June 30, 2000.

NOTE 18 - SUBSEQUENT EVENT

In November 2001, Lucas ESC entered into a lease purchase agreement, in connection with the Ohio Association of School Business Officials (OASBO) expanded asset pooled financing program, in the amount of \$861,000, for the purpose of acquisition and renovation of land and a building for school district purposes.

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>				
Special Education Preschool Grants				
(587-9799)	PG-S100P	84.173	\$29,907	\$17,118
(587-9899)	PG-S1-2001P	84.173	54,503	63,389
Safe and Drug Free Schools and Communities-State Grants				
(584-9098)	DR-S199C	84.186	(582)	109
(584-9199)	DR-S200	84.186	127,488	148,530
(584-9200)	DR-S2-2001	84.186	53,364	46,031
Eisenhower Professional Development State Grants				
(514-9398)	MS-S200	84.281	65,210	118,342
(514-9498)	MS-S200	84.281		47,367
(514-9200)	MS-S2-2001	84.281	42,686	1,050
Goals 2000-State and Local Education Systemic Improvement				
(589-9000)	G2-S6-2001P	84.276	90,000	25,000
(599-9299)	G2-S398C	84.276	(13,117)	
(599-9399)	G2-S300	84.276		22,921
(599-9002)	G2-S499	84.276	60,000	58,560
(599-9006)	G2-S6-2001P	84.276	117,675	104,334
(599-9005)		84.276		8,018
Technology Literacy Challenge Fund Grants				
(450-9000)	TF-SA99P	84.318		42,675
Total Ohio Department of Education			<u>627,134</u>	<u>703,444</u>
Total U.S. Department of Education			<u>627,134</u>	<u>703,444</u>
U.S. DEPARTMENT OF LABOR <i>Passed Through Toledo Private Industry Council</i>				
Job Training Partnership Act - Title II				
(502-9600)		17.250	525	525
(502-9999)		17.250	300	300
Total Toledo Private Industry Council			<u>825</u>	<u>825</u>
Total U. S. Department of Labor			<u>825</u>	<u>825</u>
DEPARTMENT OF JOB AND FAMILY SERVICES <i>Passed Through Ohio Department of Education</i>				
Workforce Investment Act				
(599-9100)	48-01-WIA-03	17.255	212,975	171,856
Total Department of Job and Family Services			<u>212,975</u>	<u>171,856</u>

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2001
(Continued)

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF TRANSPORTATION <i>Passed Through Ohio Department of Transportation</i>				
State and Community Highway Safety (019-9298)		20.600		12
(019-9299)		20.600	20,471	9,697
(019-9399)		20.600	<u>23,651</u>	<u>34,470</u>
Total U.S. Department of Transportation			<u>44,122</u>	<u>44,179</u>
U.S. DEPARTMENT OF DEFENSE				
Direct Program: Jr. R.O.T.C.		12.xxx	<u>53,633</u>	<u>63,364</u>
Total U.S. Department of Defense			<u>53,633</u>	<u>63,364</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u>\$938,689</u>	<u>\$983,668</u>

The accompanying notes are an integral part of this schedule

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
JUNE 30, 2001**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of Lucas ESC's federal award programs. The schedule has been prepared on the cash basis of accounting, except expenditures of assistance passed through the Toledo Private Industry Council are presented on an accrual basis.

NOTE B – MATCHING REQUIREMENTS

Certain Federal programs require that Lucas ESC contribute non-Federal funds (matching funds) to support the Federally-funded programs. Lucas ESC has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
SUPPLEMENTAL SCHEDULE

ANALYSIS OF COST LIMITATIONS AND BUDGET TO ACTUAL, TITLE II
FOR THE YEAR ENDING JUNE 30, 2001

CONTRACT NUMBER/COST CENTER	ALLOCATION	ADMINISTRATION MAXIMUM 20%	DIRECT TRAINING MINIMUM 50%	TRAINING RELATED & SUPPORTIVE SERVICES MAXIMUM 30%
108-22-98/(502-9600)				
TOTAL ALLOCATION	83,564	0	58,564	25,000
Expenditures:				
Expenditures 7/1/99 to 6/30/00	82,929	0	57,929	25,000
Expenditures 7/1/00 to 6/30/01	525	0	525	0
Total Expenditures	83,454	0	58,454	25,000
Unexpended Funds	110	0	110	0
Percentage of Allocation	0.13%	0.00%	0.19%	0.00%
Budget:				
FY 01 Budget	525	525	0	0
Percentage Achieved	0.63%	100.00%	0.00%	100.00%
108-22-99/(502-9999)				
TOTAL ALLOCATION	47,870	0	37,470	10,400
Expenditures:				
Expenditures 7/1/99 to 6/30/00	43,842	0	33,442	10,400
Expenditures 7/1/99 to 6/30/01	300	0	300	0
Total Expenditures	44,142	0	33,742	10,400
Unexpended Funds	3,728	0	3,728	0
Percentage of Allocation	7.79%	0.00%	9.95%	0.00%
Budget:				
FY 2001 Budget	300	0	300	0
Percentage Achieved	0.63%	100.00%	0.80%	100.00%

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
SUPPLEMENTAL SCHEDULE

SCHEDULE OF VARIANCES
FOR THE YEAR ENDING JUNE 30, 2001

<u>TITLE II</u>	<u>PRIVATE INDUSTRY COUNCIL</u>	<u>AUDIT REPORT</u>	<u>VARIANCES</u>
108-22-98	\$525	\$525	\$0
108-22-99	300	300	0
Total CFDA #17.250	<u>\$825</u>	<u>\$825</u>	<u>\$0</u>



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

Lucas County Educational Service Center
415 Emerald Avenue, 2nd Floor
Toledo, Ohio 43602-1817

To the Educational Service Center:

We have audited the financial statements of the Lucas County Educational Service Center (Lucas ESC) as of and for the year ended June 30, 2001, and have issued our report thereon dated January 29, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lucas ESC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2001-10148-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lucas ESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention that, in our judgment, could adversely affect Lucas ESC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as item 2001-10148-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to the management of Lucas ESC in a separate letter dated January 29, 2002.

This report is intended for the information and use of the audit committee, management, the Board of Lucas ESC, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

January 29, 2002



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Lucas County Educational Service Center
415 Emerald Avenue, 2nd Floor
Toledo, Ohio 43602-1817

To the Educational Service Center:

Compliance

We have audited the compliance of the Lucas County Educational Service Center (Lucas ESC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. Lucas ESC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lucas ESC's management. Our responsibility is to express an opinion on Lucas ESC's compliance based on our audit.

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

In our opinion, Lucas ESC complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001.

Internal Control Over Compliance

The management of Lucas ESC is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lucas ESC's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the audit committee, management, the Board of Lucas ESC, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Jim Petro
Auditor of State

January 29, 2002

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FINDINGS
 OMB CIRCULAR A -133 § .505
 JUNE 30, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Goals 2000 CFDA # 84.276 Workforce Investment Act (WIA) CFDA # 17.255
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2001-10148-001

Noncompliance Citation

Ohio Revised Code § 5705.41 (D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

**FINDING NUMBER 2001-10148-001
(Continued)**

This section also provides two exceptions to the above requirements:

- A. If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, Lucas ESC may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- B. If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of Lucas ESC.

Forty percent of the transactions tested did not contain prior certification by the Treasurer and were not certified until the time of the payment. These commitments were not subsequently approved by Lucas ESC within the aforementioned 30-day period. We recommend, where possible, Lucas ESC certify the availability of funds prior to expenditures being made. Where prior certification is not feasible, we encourage the Lucas ESC to utilize then and now certificates or blanket certificates.

<p style="text-align: center;">2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</p>
--

FINDING NUMBER 2001-10148-002

Reportable Condition

The following control weaknesses over fixed assets exist:

- Lucas ESC has not developed a fixed asset accounting system which maintains total fixed asset listings, by location, with tag identification numbers and other supplemental information.
- Lucas ESC has not accurately developed and implemented procedures to assist in recording assets as additions when purchased, and deletions when disposed of throughout the fiscal year.
- Lucas ESC has not implemented procedures to perform periodic inventory of assets.
- Lucas ESC has adopted a fixed asset policy wherein it sets forth the capitalization criteria at a replacement cost of \$250 or more. However, Lucas ESC has included everything in the additions list even though they did not meet the capitalization threshold.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of fixed assets could result in misappropriation of assets and misstatements of recorded assets.

**FINDING NUMBER 2001-10148-002
(Continued)**

To maintain adequate safeguards over fixed assets, and to reduce the risk of misstatement, we recommend:

- The Governing Board develop and implement procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting Lucas ESC's capitalization criteria. Further, addition and disposal forms should be completed by Lucas ESC and approved by management when assets are acquired or disposed. This information should then be entered on the fixed asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location and any other supporting documentation.
- Lucas ESC develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all fixed assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added. Any significant deficiencies should be investigated and documented accordingly.
- Lucas ESC should follow their capitalization criteria of \$250.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.



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LUCAS 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
FEBRUARY 26, 2002**