



**Auditor of State
Betty Montgomery**

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Educational Service Center:

We have audited the accompanying general-purpose financial statements of Lucas County Educational Service Center (Lucas County ESC) as of and for the year ended June 30, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Lucas County 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 the Educational Service Center, Lucas County, as of June 30, 2002, 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, 2003 on our consideration of the Lucas County 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.

Educational Service Center
Lucas County
Independent Accountants' Report
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The accompanying federal awards expenditures schedule 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. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

January 29, 2003

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**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
June 30, 2002**

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
ASSETS AND OTHER DEBITS			
Assets:			
Equity in Pooled Cash and Cash Equivalents	\$4,194,067	\$2,164,368	\$94,619
Receivables:			
Accounts	1,023,269	221,108	
Intergovernmental		210,439	
Accrued Interest	16,104	643	
Prepaid Items	27,608		
Fixed Assets (Net of Accumulated Depreciation)			
Other Debits:			
Amount to be Provided from General Government Resources			
Total Assets and Other Debits	\$5,261,048	\$2,596,558	\$94,619
 LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Liabilities:			
Accounts Payable	\$133,438	\$153,722	\$7,743
Accrued Wages	691,716	374,477	
Compensated Absences Payable	94,091	9,501	
Intergovernmental Payable	95,783	56,857	
Deferred Revenue		39,000	
Undistributed Monies			
Capital Leases Payable			
Total Liabilities	1,015,028	633,557	7,743
Fund Equity and Other Credits:			
Investment in General Fixed Assets			
Fund Balance:			
Reserved for Encumbrances	97,065	773,168	8,226
Reserved for Prepaid Items	27,608		
Unreserved, Undesignated	4,121,347	1,189,833	78,650
Total Fund Equity and Other Credits	4,246,020	1,963,001	86,876
Total Liabilities, Fund Equity and Other Credits	\$5,261,048	\$2,596,558	\$94,619

The accompanying notes are an integral part of the financial statements.

Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
	General Fixed Assets	General Long-Term Obligations	
Agency			
\$2,291,028			\$8,744,082
15,339			1,259,716
			210,439
			16,747
			27,608
	\$3,092,493		3,092,493
		\$2,539,882	2,539,882
\$2,306,367	\$3,092,493	\$2,539,882	\$15,890,967
\$977,459			\$1,272,362
8,024			1,074,217
		\$778,779	882,371
1,240		45,728	199,608
			39,000
1,319,644			1,319,644
		1,715,375	1,715,375
2,306,367		2,539,882	6,502,577
	\$3,092,493		3,092,493
			878,459
			27,608
			5,389,830
	3,092,493		9,388,390
\$2,306,367	\$3,092,493	\$2,539,882	\$15,890,967

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Revenues:				
Intergovernmental	\$7,083,560	\$3,311,099	\$99,198	\$10,493,857
Interest	258,137	10,711		268,848
Tuition	1,747,127	235,770		1,982,897
Customer Services	3,646,207	2,939,890		6,586,097
Food Services	4,596			4,596
Classroom Materials and Fees	54,772	27,274		82,046
Transportation	392,645			392,645
Miscellaneous	860,684	135,555		996,239
Total Revenues	<u>14,047,728</u>	<u>6,660,299</u>	<u>99,198</u>	<u>20,807,225</u>
Expenditures:				
Current:				
Instruction:				
Regular	174,736	70,741		245,477
Special	6,047,282	320,557		6,367,839
Vocational	65,281			65,281
Other		10,261		10,261
Support Services:				
Pupils	1,843,719			1,843,719
Instructional Staff	1,920,263	1,218,679	48,315	3,187,257
Board of Education	32,737	1,747,144		1,779,881
Administration	2,059,008	54,646		2,113,654
Fiscal	580,646	27,780		608,426
Business	260,558	3,716		264,274
Operation and Maintenance of Plant	678,684	10,371		689,055
Pupil Transportation	360,886	2,263		363,149
Central	162,796	19,999		182,795
Operation of Non-Instructional Services	155,112	3,031,251		3,186,363
Intergovernmental		333,913		333,913
Total Expenditures	<u>14,341,708</u>	<u>6,851,321</u>	<u>48,315</u>	<u>21,241,344</u>
Excess of Revenues Over (Under) Expenditures	<u>(293,980)</u>	<u>(191,022)</u>	<u>50,883</u>	<u>(434,119)</u>
Other Financing Sources (Uses):				
Loss on Sale of Fixed Assets	22,440			22,440
Refund of Prior Year Expenditures	2,604	2,227		4,831
Total Other Financing Sources (Uses)	<u>25,044</u>	<u>2,227</u>		<u>27,271</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(268,936)	(188,795)	50,883	(406,848)
Fund Balances at Beginning of Year	<u>4,514,956</u>	<u>2,151,796</u>	<u>35,993</u>	<u>6,702,745</u>
Fund Balances at End of Year	<u>\$4,246,020</u>	<u>\$1,963,001</u>	<u>\$86,876</u>	<u>\$6,295,897</u>

The accompanying notes are an integral part of the financial statements.

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002**

	General Fund		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$5,818,844	\$7,083,560	\$1,264,716
Earnings on Investments	465,000	291,453	(173,547)
Food Services	4,186	4,186	
Tuition	1,513,825	1,584,808	70,983
Customer Services	2,691,629	3,146,235	454,606
Classroom Material and Fees	13,072	54,752	41,680
Transportation Fees	281,500	389,041	107,541
Miscellaneous	1,073,235	799,533	(273,702)
Total Revenues	<u>11,861,291</u>	<u>13,353,568</u>	<u>1,492,277</u>
Expenditures:			
Instruction:			
Regular	191,633	174,775	16,858
Special	6,529,835	6,028,905	500,930
Vocational	79,796	70,382	9,414
Adult Education			
Support Services:			
Pupils	1,906,736	1,854,571	52,165
Instructional Staff	2,156,751	1,950,805	205,946
Board of Education	44,952	27,020	17,932
Administration	2,398,894	2,075,269	323,625
Fiscal	625,436	572,424	53,012
Business	296,802	271,774	25,028
Operation and Maintenance of Plant	1,072,492	615,413	457,079
Pupil Transportation	555,435	466,602	88,833
Central	188,077	155,334	32,743
Operation of Non-Instructional Services	247,579	138,156	109,423
Total Expenditures	<u>16,294,418</u>	<u>14,401,430</u>	<u>1,892,988</u>
Excess of Revenues Over (Under) Expenditures	<u>(4,433,127)</u>	<u>(1,047,862)</u>	<u>3,385,265</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets		22,440	22,440
Refund of Prior Year Expenditures		2,604	2,604
Operating Transfers Out	(15,217)		15,217
Operating Transfers In	15,217		(15,217)
Total Other Financing Sources (Uses)		<u>25,044</u>	<u>25,044</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(4,433,127)	(1,022,818)	3,410,309
Fund Balances (Deficit) at Beginning of Year	5,024,053	5,024,053	
Prior Year Encumbrances Appropriated	62,243	62,243	
Fund Balances (Deficit) at End of Year	<u>\$653,169</u>	<u>\$4,063,478</u>	<u>\$3,410,309</u>

(Continued)

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental Fund Types
For the Fiscal Year Ended June 30, 2002
(Continued)**

	Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Intergovernmental	\$2,579,482	\$3,316,976	\$737,494
Earnings on Investments	5,067	12,019	6,952
Food Services			
Tuition	225,584	234,812	9,228
Customer Services	2,554,850	2,727,913	173,063
Classroom Material and Fees	8,094	24,489	16,395
Transportation Fees			
Miscellaneous	61,431	133,630	72,199
Total Revenues	<u>5,434,508</u>	<u>6,449,839</u>	<u>1,015,331</u>
Expenditures:			
Instruction:			
Regular	214,595	192,460	22,135
Special	491,523	355,222	136,301
Vocational			
Adult Education	18,320	10,260	8,060
Support Services:			
Pupils	1,613,551	1,322,361	291,190
Instructional Staff	1,943,976	2,616,080	(672,104)
Board of Education			
Administration	249,113	194,855	54,258
Fiscal	59,598	27,780	31,818
Business	10,074	3,528	6,546
Operation and Maintenance of Plant	15,896	10,646	5,250
Pupil Transportation	9,974	2,263	7,711
Central	27,066	19,999	7,067
Operation of Non-Instructional Services	3,466,744	3,024,429	442,315
Total Expenditures	<u>8,120,430</u>	<u>7,779,883</u>	<u>340,547</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,685,922)</u>	<u>(1,330,044)</u>	<u>1,355,878</u>
Other Financing Sources (Uses):			
Proceeds from Sale of Fixed Assets			
Refund of Prior Year Expenditures	2,138	2,227	89
Operating Transfers Out	(1,690)		1,690
Operating Transfers In	1,690		(1,690)
Total Other Financing Sources (Uses)	<u>2,138</u>	<u>2,227</u>	<u>89</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,683,784)	(1,327,817)	1,355,967
Fund Balances (Deficit) at Beginning of Year	2,268,410	2,268,410	
Prior Year Encumbrances Appropriated	392,317	392,317	
Fund Balances (Deficit) at End of Year	<u>(\$23,057)</u>	<u>\$1,332,910</u>	<u>\$1,355,967</u>

The accompanying notes are an integral part of the financial statements.

Capital Projects			(Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$9,892	\$99,198	\$89,306	\$8,408,218	\$10,499,734	\$2,091,516
			470,067	303,472	(166,595)
			4,186	4,186	
			1,739,409	1,819,620	80,211
			5,246,479	5,874,148	627,669
			21,166	79,241	58,075
			281,500	389,041	107,541
			1,134,666	933,163	(201,503)
<u>9,892</u>	<u>99,198</u>	<u>89,306</u>	<u>17,305,691</u>	<u>19,902,605</u>	<u>2,596,914</u>
			406,228	367,235	38,993
			7,021,358	6,384,127	637,231
			79,796	70,382	9,414
			18,320	10,260	8,060
			3,520,287	3,176,932	343,355
95,875	44,220	51,655	4,196,602	4,611,105	(414,503)
			44,952	27,020	17,932
9,892	9,892		2,657,899	2,280,016	377,883
			685,034	600,204	84,830
			306,876	275,302	31,574
			1,088,388	626,059	462,329
			565,409	468,865	96,544
			215,143	175,333	39,810
			3,714,323	3,162,585	551,738
<u>105,767</u>	<u>54,112</u>	<u>51,655</u>	<u>24,520,615</u>	<u>22,235,425</u>	<u>2,285,190</u>
<u>(95,875)</u>	<u>45,086</u>	<u>140,961</u>	<u>(7,214,924)</u>	<u>(2,332,820)</u>	<u>4,882,104</u>
				22,440	22,440
			2,138	4,831	2,693
			(16,907)		16,907
			16,907		(16,907)
			<u>2,138</u>	<u>27,271</u>	<u>25,133</u>
(95,875)	45,086	140,961	(7,212,786)	(2,305,549)	4,907,237
36,682	36,682		7,329,145	7,329,145	
297	297		454,857	454,857	
<u>(\$58,896)</u>	<u>\$82,065</u>	<u>\$140,961</u>	<u>\$571,216</u>	<u>\$5,478,453</u>	<u>\$4,907,237</u>

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**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002**

NOTE 1 - REPORTING ENTITY

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

Lucas County ESC operates under a locally-elected Board of Education consisting of five members elected at-large for staggered four year terms. Lucas County ESC has nineteen administrators, ninety-nine classified employees, and two hundred ninety 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 County ESC consists of all funds, departments, boards, and agencies that are not legally separate from Lucas County ESC. For Lucas County Educational Service Center, this includes general operations and student-related activities. Component units are legally separate organizations for which Lucas County ESC is financially accountable. Lucas County ESC is financially accountable for an organization if Lucas County ESC appoints a voting majority of the organization's governing board and (1) Lucas County ESC is able to significantly influence the programs or services performed or provided by the organization; or (2) Lucas County ESC is legally entitled to or can otherwise access the organization's resources; Lucas County ESC is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or Lucas County ESC is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on Lucas County ESC in that Lucas County ESC approves the budget, issues debt, or levies taxes. Lucas County ESC has no component units.

Lucas County ESC is associated with two jointly governed organizations. These organizations are the Penta County 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, 2002, Lucas County ESC 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 Lucas County ESC.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lucas County 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 County ESC's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

Lucas County 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.

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

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

General Fund - The General Fund is the operating fund of Lucas County 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 County 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 accounts 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 County ESC in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. Lucas County ESC's fiduciary funds include agency 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 County ESC.

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

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(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 by the governmental fund types.

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 County ESC, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which Lucas County 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 for a specified purpose; and expenditure requirements, in which the resources are provided to Lucas County 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 have 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.

C. Budgetary Process

The budgetary process entails the preparation of budgetary documents within an established timetable.

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the General-Purpose Financial Statements
June 30, 2002
(Continued)**

The Educational Service Center adopts its budget for all 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 the Educational Service Center'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, the Educational Service Center 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 the Educational Service Center. Part (C) includes the adopted appropriation resolution of the Educational Service Center. The State Department of Education reviews the budget and certifies to each Board of Education, under the supervision of the Educational Service Center, the amount from part (B) that is to be apportioned to their school district.

Appropriations:

The annual appropriation resolution is enacted by the Educational Service Center at the fund level of expenditures. Prior to the passage of the annual appropriation measure, the Educational Service Center may pass a temporary appropriation measure to meet the ordinary expenditures of the Educational Service Center.

The appropriation resolution, by fund, is limited by the estimated resources, and the total of expenditures and encumbrances is controlled so as not to exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation are approved by the Educational Service Center's Board.

The Educational Service Center 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 on 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.

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. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures.

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.

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the General-Purpose Financial Statements
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D. Cash and Investments

To improve cash management, cash received by Lucas County 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 2002, investments were limited to repurchase agreements, nonnegotiable certificates of deposit, a Student Loan Mortgage Association (SLMA) medium term note, and STAR Ohio. Repurchase agreements and nonnegotiable certificates of deposit are reported at cost. The SLMA instrument matured during fiscal year 2002. 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, 2002.

Following Ohio statutes, Lucas County ESC has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2002 amounted to \$258,137 which includes \$105,980 assigned from other 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 County 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, 2002, 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.

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 County 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 County ESC does not have any infrastructure.

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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 County ESC will compensate the employees for the benefits through paid time off or some other means. Lucas County 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 retirement benefits and those Lucas County 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 County ESC's severance policy. Lucas County ESC records a liability for accumulated severance leave for all employees who have ten years of current service with Lucas County ESC or 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 County 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.

J. Intergovernmental Revenues

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

Entitlements

General Fund

State Foundation Program

Reimbursable Grants

Special Revenue Funds

Motorcycle Safety

Disadvantaged Pupil Program

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Non-Reimbursable Grants

General Fund

Junior ROTC Program

Special Revenue Funds

Teacher Development
Community School Startup Grant
Education Management Information Systems
Praxis III
Reading Recovery
Truancy
Public School Preschool Accreditation
Entry Year Programs
Data Communications
SchoolNet - Professional Development
Ohio Reads
Interpreter Professional Development
Summer Intervention Reading Institute
Eisenhower
Drug Free
Preschool Diagnostic
Alternative Education State Grant
Character Education Grant ALCC
Traffic Safety Consortium
High Schools that work
WIA Program

Capital Projects Fund

SchoolNet

Grants and entitlements amounted to approximately 50 percent of the revenues of Lucas County ESC's governmental fund types during the 2002 fiscal year.

K. Flow Through Grants

Lucas County ESC is the primary recipient of grants which are passed through or spent on behalf of the school districts within the county. When Lucas County 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 2002, these funds included the Local 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 nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

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**Notes to the General-Purpose Financial Statements
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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 that 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. Accountability

At June 30, 2002, the Motorcycle Safety, Drug Free, and Preschool Diagnostics special revenue funds had deficit cash balances of \$15,584, \$14,115, \$36,611, respectively. The deficit occurred because funds were not advanced from the General Fund to finance the expenditures until reimbursements are received.

B. Compliance

The following accounts had expenditures in excess of appropriations for the fiscal year ended June 30, 2002.

	Appropriations	Expenditures	Excess
Special Revenue:			
Instructional Staff	\$1,943,976	\$2,616,080	(\$672,104)

C. Fiscal Officer's Certification

Lucas County ESC made purchases during the fiscal year without proper certification of the fiscal officer prior to obligations being incurred.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While Lucas County 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 Similar Fiduciary 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).

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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	(\$1,022,818)	(\$1,327,817)	\$45,086
Increase (Decrease) Due To:			
Revenue Accruals	694,160	210,460	
Expenditure Accruals	(70,867)	313,099	(6,756)
Encumbrances Outstanding at Year End (Budget Basis)	130,589	615,463	12,553
GAAP Basis	(\$268,936)	(\$188,795)	\$50,883

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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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 County 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.

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 County ESC's deposits was \$5,996,750 and the bank balance was \$6,999,328. Of the bank balance, \$987,000 was covered by federal depository insurance and \$6,012,328 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject Lucas County ESC to a successful claim by the FDIC.

Investments

Lucas County ESC's investments are categorized below to give an indication of the level of risk assumed by Lucas County ESC at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by Lucas County ESC or its agent in Lucas County ESC's name. Category 2

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includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in Lucas County 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 County ESC's name. Lucas County 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.

	Category 3	Reported Amount	Fair Value
Repurchase Agreements	\$1,813,118	\$1,813,118	\$1,813,118
STAR Ohio		934,214	934,214
Total	<u>\$1,813,118</u>	<u>\$2,747,332</u>	<u>\$2,747,332</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 Non-Expendable 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:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$8,744,082	
Investments:		
Repurchase Agreements	(1,813,118)	\$1,813,118
STAR Ohio	(934,214)	934,214
GASB Statement No. 3	<u>\$5,996,750</u>	<u>\$2,747,332</u>

NOTE 6 - STATE FUNDING

Lucas County 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 County 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 County ESC by \$37. This amount is provided from State resources.

If additional funding is needed for Lucas County ESC, and if a majority of the Boards of Education of the school districts served by Lucas County 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 County 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.

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NOTE 7 - RECEIVABLES

Receivables at June 30, 2002, 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:

Accounts Receivable		
General Fund	\$1,023,269	
Special Revenue	221,108	
Agency	15,339	
Total Accounts Receivable	<u>\$1,259,716</u>	
Intergovernmental Receivables		
Special Revenue Funds		
Adult Education	\$84	
Traffic Safety Grant	10,257	
Motorcycle Class	9,494	
Ohio SchoolNet	16	
Ohio Reads	7	
SIRI RPDC Literacy	40,770	
Interpreter Grant	15,000	
Project Er-Himmelein	42,000	
Drug Free	36,108	
Early Childhood Diagnostic	56,703	
Total Intergovernmental Receivable	<u>\$210,439</u>	
Accrued Interest Receivable:		
General	\$16,104	
Special Revenue	643	
Total Accrued Interest Receivable	<u>\$16,747</u>	

NOTE 8 - FIXED ASSETS

A summary of the changes in general fixed assets during fiscal year 2002 follows:

Asset Category	Balance at 7/1/2001	Additions	Deletions	Balance at 6/30/2002
Buildings	\$153,228	\$1,715,375		\$1,868,603
Improvements Other Than Buildings	1,953			1,953
Furniture, Fixtures, and Equipment	1,028,616	159,552	\$17,690	1,170,478
Vehicles	51,459			51,459
Totals	<u>\$1,235,256</u>	<u>\$1,874,927</u>	<u>\$17,690</u>	<u>\$3,092,493</u>

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NOTE 9 - RISK MANAGEMENT

Lucas County 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 2002, Lucas County ESC contracted for the following insurance coverages.

Coverages provided by Dussel Insurance Agency:	
Commercial Property (\$250 deductible)	\$475,000
Building (\$250 deductible)	4,903,000
Coverages provided by Harcum-Hyre Insurance Agency:	
General Liability	
Per Occurance	1,000,000
Aggregate	3,000,000
Employers Liability	1,000,000
Business Auto	1,000,000
Employee Benefits Liability	1,000,000
Educators Legal Liability (\$10,000 deductible)	1,000,000
Excess Liability	2,000,000

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 County ESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer public employee retirement system administered by the School Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853. Plan members are required to contribute 9 percent of their annual covered salary and Lucas County ESC is required to contribute at an actuarially determined rate. The current rate is 14 percent of annual covered payroll; 5.46 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 County ESC's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2002, 2001, and 2000, were \$121,092, \$246,295, and \$293,021, respectively; 86.49 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$48,056 is recorded as a liability within respective funds.

B. State Teachers Retirement System

Lucas County 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

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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 public 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 County 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 County ESC's contributions to STRS for the years ended June 30, 2002, 2001 and 2000 were \$963,404, \$1,266,298, and \$1,230,343, respectively; 91.59 percent has been contributed for fiscal year 2002 and 100 percent for fiscal years 2001 and 2000. The unpaid contribution for fiscal year 2002, in the amount of \$130,167 is recorded as a liability within respective funds.

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, 2002, one member of the Board of Education has elected Social Security. Lucas County ESC's liability is 6.2 percent of wages paid.

NOTE 11 - POSTEMPLOYMENT BENEFITS

Lucas County 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 the coverage paid from STRS funds shall be included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year 2002, the Board allocated employer contributions equal to 4.5 percent of covered payroll to the Health Care Reserve Fund. For Lucas County ESC, this amount equaled \$456,349 for the fiscal year ended June 30, 2002.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3.256 billion at June 30, 2001 (the latest information available). For the fiscal year ended June 30, 2001, net health care costs paid by STRS were \$300,772,000 and STRS had 102,132 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.

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For this fiscal period, employer contributions to fund health care benefits were 9.80 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 had been established at \$12,400. For Lucas County ESC, the amount to fund health care benefits, including the surcharge, was \$191,057 for the fiscal year ended June 30, 2002.

The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2001 (the latest information available), were \$161,439,934 and the target level was \$242.2 million. At June 30, 2001 (the latest information available), SERS had net assets available for payment of health care benefits of \$315.7 million. SERS has approximately 50,000 participants currently receiving health care benefits.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation are 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 County 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 County ESC also offers life insurance to all employees through the Ohio School Boards Association.

NOTE 13 - LONG-TERM OBLIGATIONS

The changes in Lucas County ESC's long-term obligations during fiscal year 2002 were as follows:

	Balance at 7/1/2001	Additions	Deductions	Balance at 6/30/2002
Compensated Absences Payable	\$735,871	\$42,908		\$778,779
Intergovernmental Payable	82,852		\$37,124	45,728
Capital Leases Payable		1,715,375		1,715,375
Total General Long-Term Obligations	\$818,723	\$1,758,283	\$37,124	\$2,539,882

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

Capital Leases Payable represents the five and ten-year OASBO lease agreements taken out by Lucas County ESC in fiscal year 2002 to finance the purchase of the Collingwood and Shuer Centers.

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The annual requirements to amortize all capital leases outstanding as of June 30, 2002, including interest are as follows:

Fiscal Year Ending June 30	Shuer Center	Collingwood Center	Total
2003	\$110,914	\$21,890	\$132,804
2004	118,966	275,466	394,432
2005	118,991	201,171	320,162
2006	119,167	205,046	324,213
2007	118,881	210,000	328,881
2008-2012	481,334		481,334
Total	1,068,253	913,573	1,981,826
Less: Amount Representing Interest	(213,878)	(52,573)	(266,451)
Total	<u>\$854,375</u>	<u>\$861,000</u>	<u>\$1,715,375</u>

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

A. Penta County Career Center

The Penta County Career Center is a distinct political subdivision of the State of Ohio which provides vocational education to students. The Career Center 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 County ESC's payments to Penta County Career Center for the period ended June 30, 2002, totaled \$12,597. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the Penta County Career Center, Carrie Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

B. Northwest Ohio Computer Association

Lucas County 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 County ESC's payments to NWOCA for the period ended June 30, 2002, totaled \$47,842.

Financial information can be obtained from the Four County Career Center, Michele M. Zeedyk, who serves as Treasurer, at 22-900 State Route 34, Archbold, Ohio 43502.

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NOTE 15 - STATE SCHOOL FUNDING DECISION

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

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

NOTE 16 - LEASES - LEASOR DISCLOSURE

Lucas County ESC has entered into a lease for the period July 7, 2001 through August 1, 2003 with the America Red Cross for use of a portion of its Collingwood Center premises. Revenues received totaled \$78,300 for the year. The American Red Cross has the option to renew the lease for three additional terms of one year.

NOTE 17 - CONTINGENT LIABILITIES

A. Grants

Lucas County 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 are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of Lucas County ESC at June 30, 2002.

B. Litigation

Lucas County ESC is a party to a legal proceeding which seeks damages or injunctive relief generally incidental to its operations. Lucas County ESC's management and legal counsel is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material adverse effect on the financial condition of Lucas County ESC.

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**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2002**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<u>Special Education Cluster:</u>				
Special Education Grants to States (IDEA Part B)		84.027		
516-9001	6BSX-2002-P		\$15,000	\$10,993
516-9100	6BSD-2002-P		18,000	17,612
Total Special Education Grants to States (IDEA Part B)			<u>33,000</u>	<u>28,605</u>
Special Education - Preschool Grant		84.173		
587-9799	PG-S100P			323
587-9899	PGS1-2001-P		20,980	11,168
587-9999	PGS1-2002-P		24,301	62,549
Total Special Education - Preschool Grant			<u>45,281</u>	<u>74,040</u>
Total Special Education Cluster			<u>78,281</u>	<u>102,645</u>
Eisenhower Professional Development		84.281		
514-9200	MSS2-2001		99,599	141,235
514-9398	MSS2-2000		37,529	28,428
514-9400	MSS4-2002		29,400	
514-9300				17,554
Total Eisenhower Professional Development			<u>166,528</u>	<u>187,217</u>
Goals 2000 - State and Local Education Systemic Improvement		84.276		
589-9000	G2S6-2001		160,000	189,986
599-9006	G2-S6-2001-P		13,375	28,216
589-9100	G2-SP-01		1,830	
Total Goals 2000			<u>175,205</u>	<u>218,202</u>
Drug-Free Schools Grant		84.186		
584-9199	DR-S200			897
584-9200	DRS2-2001		124,517	130,116
584-9300	DRS2-2002			21,823
Total Drug Free Schools Grant			<u>124,517</u>	<u>152,836</u>
Total Department of Education			<u>544,531</u>	<u>660,900</u>
UNITED STATES DEPARTMENT OF JOBS AND FAMILY SERVICES				
<i>Passed Through Ohio Department of Education:</i>				
Workplace Investment Act		17.255		
599-9100	48-01-WIA-03		87,025	26,334
599-9101	48-02-WIA-03		1,020,016	900,156
Total Workplace Investment Act			<u>1,107,041</u>	<u>926,490</u>
U.S. DEPARTMENT OF TRANSPORTATION				
<i>Passed Through Ohio Department of Transportation</i>				
State and Community Highway Safety		20.600		
019-9399			30,032	20,030
019-9400			22,257	39,516
Total State and Community Highway Safety			<u>52,289</u>	<u>59,546</u>
U.S. DEPARTMENT OF DEFENSE				
Jr. R.O.T.C.		12.xxx		
			59,208	71,903
Totals			<u>\$1,763,069</u>	<u>\$1,718,839</u>

The accompanying notes are an integral part of this schedule.

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended June 30, 1999**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of Lucas County ESC's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

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

To the Educational Service Center:

We have audited the financial statements of Lucas County Educational Service Center (Lucas County ESC) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 29, 2003. 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 the Lucas County 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 items 2002-10148-001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lucas County 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Lucas County ESC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-10148-002

Educational Service Center
Lucas County
Independent Accountants' Report on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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 do not believe the reportable condition described above is 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 management of the Lucas County ESC in a separate letter dated January 29, 2003.

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



Betty Montgomery
Auditor of State

January 29, 2003



**Auditor of State
Betty Montgomery**

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

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

To the Educational Service Center:

Compliance

We have audited the compliance of Lucas County Educational Service Center (Lucas County 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, 2002. The Lucas County 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 the Lucas County ESC's management. Our responsibility is to express an opinion on the Lucas County 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 the Lucas County 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 the Lucas County ESC's compliance with those requirements.

In our opinion, the Lucas County ESC complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Lucas County 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 the Lucas County 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 the Lucas County ESC, federal awarding agency and pass-through entity, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

January 29, 2003

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Schedule of Findings
OMB Circular A -133 § .505
June 30, 2002**

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 weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions 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?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Workforce Investment Act (WIA) CFDA # 17.255
<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**

FINDING NUMBER 2002-10148-001

Noncompliance Citation

Ohio Revised Code § 5705.41(D) states that 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. Further, contracts and orders for expenditures lacking prior certification should be null and void.

FINDING NUMBER 2002-10148-001
(Continued)

This section also provides two exceptions to the above requirement:

- A. Then and Now Certificate - 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 encumbrance, the taxing authority 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, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000 the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, if such expenditure is otherwise valid.

Fifty-two percent of the transactions tested did not contain prior certification by the Treasurer. We recommend, where possible, Lucas County ESC certify the availability of funds prior to expenditures being made. Where prior certification is not feasible, we encourage Lucas County ESC to utilize "then and now" certificates or blanket certificates.

FINDING NUMBER 2002-10148-002

Reportable Condition - Inventory of Fixed Assets

The following control weaknesses over fixed assets exist:

- Lucas County 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 County 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 County ESC has not implemented procedures to perform periodic inventory of assets.
- Lucas County ESC has adopted a fixed asset policy wherein it sets forth the capitalization criteria at a replacement cost of \$250 or more. However, Lucas County ESC was including 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.

To maintain adequate safeguards over fixed assets, and to reduce the risk that Lucas County ESC's assets will be misstated, we recommend:

- The Governing Board develops and implements procedures to be performed throughout the year, for the recording and updating of fixed assets. These procedures should include tagging all assets meeting Lucas County ESC's capitalization criteria. Further, addition and disposal forms should be completed by Lucas County 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.

**FINDING NUMBER 2002-10148-002
(Continued)**

- Lucas County ESC develops and implements 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 County ESC should follow their capitalization criteria.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Schedule of Prior Audit Findings
June 30, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-10148-001	Ohio Revised Code § 5705.41(D), the fiscal officer did not certify the availability of funds prior to expenditure.	No	Not corrected.
2001-10148-002	Fixed asset listing has not been updated.	No	Not corrected.



**Auditor of State
Betty Montgomery**

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MARCH 6, 2003**