



**Auditor of State
Betty Montgomery**

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Lucas County Educational Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center (LCESC) as of and for the year ended June 30, 2003, which collectively comprise LCESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of LCESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center, Lucas County, Ohio, as of June 30, 2003, and the respective changes in financial position and the respective budgetary comparison for the General and Auxiliary Service Fund thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended June 30, 2003, LCESC implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and changed its capital asset threshold amount.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2004, on our consideration of LCESC'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.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise LCESC's basic financial statements. The accompanying schedule of federal awards expenditures is required by the 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 basic financial statements. We subjected the schedule of federal awards expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 6, 2004

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003

The discussion and analysis of the Lucas County Educational Service Center's (LCESC) financial performance provides an overall view of LCESC's financial activities for the fiscal year ended June 30, 2003. The intent of this discussion and analysis is to look at LCESC's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of LCESC's financial performance.

Financial Highlights

Key financial highlights for 2003 are as follows:

Total Net Assets were \$5,618,557
Total Revenue was \$23,844,624
Total Expenses were \$23,953,115
Changes in Net Assets were (\$108,491)
Capital Assets, net of Depreciation, increased to \$2,617,195 from \$1,963,659.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand LCESC as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole LCESC, presenting both an aggregate view of LCESC's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at LCESC's General Fund, the Auxiliary Services Fund, and all other non-major funds presented in total in one column. In the case of LCESC, the General and Auxiliary Service Funds are by far the most significant funds.

Reporting LCESC as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the LCESC to provide programs and activities, the view of the LCESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets* and

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003 (Continued)

liabilities using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report LCESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for LCESC as a whole, the *financial position* of LCESC has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

In the Statement of Net Assets and the Statement of Activities, governmental activities are shown:

Governmental Activities - All of the District's programs and services are reported here including instruction, support services, operation and maintenance of plant, pupil transportation, and extracurricular activities.

Reporting LCESC's Most Significant Funds

Fund Financial Statements

Fund financial statements provide detailed information about LCESC's major funds. LCESC uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on LCESC's most significant funds. LCESC's major governmental funds are the General Fund and the Auxiliary Service Fund.

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

LCESC as a Whole

Recall the Statement of Net Assets provides the perspective of LCESC as a whole.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Table 1 provides a summary of LCESC's net assets for 2003. This is the first year LCESC has prepared financial statements following GASB Statement 34.

Net Assets <i>(In Millions)</i>	
Governmental Activities	
	2003
Assets	
Current and Other Assets	\$ 8.3
Capital Assets	2.6
<i>Total Assets</i>	10.9
Liabilities	
Long-term Liabilities	3.6
Other Liabilities	1.7
<i>Total Liabilities</i>	5.3
Net Assets	
Invested in Capital Assets, Net of Debt	0.1
Restricted	2.1
Unrestricted (Deficit)	3.4
<i>Total Net Assets</i>	\$ 5.6

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year LCESC has prepared financial statements following GASB Statement 34, revenue and expense comparisons to fiscal year 2002 are not available.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Table 2
Changes in Net Assets for Governmental Activities
(In Millions)

Governmental Activities	2003
Revenue	
<i>Program Revenues:</i>	
Charges for Services	\$ 10.9
Operating Grants	4.5
<i>General Revenue:</i>	
Grants and Entitlements	8.1
Other	0.3
<i>Total Revenues</i>	23.8
Program Expenses	
Instruction	7.4
<i>Support Services:</i>	
Pupil and Instructional Staff	7.3
Board of Education, Administration, Fiscal and Business	3.3
Operation and Maintenance of Plant	0.9
Pupil Transportation	0.5
Central	0.2
Non-Instructional Services	3.3
Other	0.9
Intergovernmental	
Interest and Fiscal Charges	0.1
<i>Total Expenses</i>	23.9
<i>Decrease in Net Assets</i>	\$ (0.1)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Governmental Activities

Instruction comprises 31 percent of governmental program expenses. Interest expense was \$0.1 million, 0.4 percent of expenses. Interest expense was attributable to the loans and capital leases borrowed for capital projects.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by mainly unrestricted State entitlements.

Table 3
Total and Net Cost of Program Services
(In Millions)

Governmental Activities		
	2003	
	Total Cost of Service	Net Cost of Service
Instruction	\$ 7.4	\$ 2.7
Support Services		
Pupil and Instructional Staff	7.3	(3.1)
Board of Education, Administration, Fiscal and Business	3.3	(3.2)
Operation and Maintenance	0.9	(0.9)
Pupil Transportation	0.5	0.1
Central	0.2	(0.2)
Operation of Non-Instructional Services	3.3	(3.2)
Other	0.9	(0.6)
Intergovernmental	-	-
Interest and Fiscal Charges	0.1	(0.1)
Total Expenses	\$ 23.9	\$ (8.5)

The dependence upon state foundation revenues for governmental activities is apparent. Although no general revenues were used to fund instructional activities, LCESC's general

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003 (Continued)

revenue is 35.5 percent of total revenue. State foundation revenue, as a whole, is by far the primary support for LCESC.

LCESC's Funds

Information about LCESC's major funds is on pages 22-23. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$23.8 million and expenditures of \$23.9 million. The net change in General Fund balance for the year was a decline of \$0.9 million. This decline indicated LCESC needed to increase its revenue base to continue meeting LCESC obligations as a whole.

General Fund Budgeting Highlights

LCESC's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2003, LCESC amended its general fund budget numerous times, none significant. LCESC uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the general fund, budget basis revenue (actual) was \$16.0 million, which is concurrent with the original budget estimates of \$13.3.

Much of this estimate was offset as the original appropriations of \$17.0 million were increased to \$19.5 million.

LCESC's ending unobligated cash balance was \$2.8 million above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2003, LCESC had \$3 million invested in buildings, improvements, equipment, and vehicles. Table 4 shows fiscal 2003 balances compared to 2002:

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2003
(Continued)**

Table 4
Capital Assets at June 30
(Net of Depreciation, in Millions)

Governmental Activities		
	2003	2002
Buildings and Improvements	\$ 2.2	\$ 1.7
Furniture and Equipment	0.4	0.2
Vehicles	-	-
Totals	\$ 2.6	\$ 1.9

The primary increase occurred in buildings and improvements, due to acquisitions and renovation of the Challenger and Shuer Centers. The lack of an increase in equipment and vehicles are the result of budget reductions and deferring these purchases until funds are available.

Debt

At June 30, 2003, LCESC had \$2.5 million in capital leases and Sky Bank loans outstanding, \$0.4 million due within one year. In addition, LCESC executed a \$575,000 loan agreement with Sky Bank for which LCESC had drawn \$30,000 as of June 30, 2003, and is committed to draw the remaining \$545,000 loan proceed balance in the future. Table 5 summarizes capital leases and loans outstanding.

Table 5
Outstanding Debt, at Year End

Governmental Activities		
	2003	2002
Sky Bank Loan		\$ -
Sky Bank Loan	0.8	-
Sky Bank Loan	0.9	-
Capital Leases	0.8	1.7
Total Outstanding Debt, at Year End	\$ 2.5	\$ 1.7

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2003 (Continued)

For the Future

In conclusion, LCESC has committed itself to financial excellence for many years. In addition, LCESC's has a system of budgeting and internal controls. All of LCESC's financial abilities will be needed to meet the challenges of the future.

Contacting the Center's Financial Management

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Net Assets
June 30, 2003**

	<u>Governmental Activities</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 7,380,994
Receivables:	
Accounts	651,651
Intergovernmental	302,681
Accrued Interest	8,168
Prepaid Items	24,201
Capital assets, net of depreciation	<u>2,617,195</u>
<i>Total Assets</i>	<u>10,984,890</u>
Liabilities	
Accounts Payable	351,960
Accrued Wages	1,149,895
Intergovernmental Payable	244,195
Long-Term Liabilities	
Due within one year	812,086
Due in more than one year	<u>2,808,197</u>
<i>Total Liabilities</i>	<u>5,366,333</u>
Net Assets	
Invested in capital assets, net of related debt	51,195
Restricted for:	
Other Purposes	2,092,171
Unrestricted	<u>3,475,191</u>
<i>Total Net Assets</i>	<u><u>\$ 5,618,557</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Activities
For the Fiscal Year Ended June 30, 2003**

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction:				
Regular	\$ 270,694	\$ -	\$ 62,798	\$ (207,896)
Special	7,021,718	9,746,609	293,615	3,018,506
Vocational	77,855	-	-	(77,855)
Adult/Continuing	12,008	-	-	(12,008)
Support Services:				
Pupils	3,211,815	-	1,220,072	(1,991,743)
Instructional Staff	4,088,161	236,102	2,729,247	(1,122,812)
Board of Education	33,904	-	-	(33,904)
Administration	2,396,703	28,200	46,954	(2,321,549)
Fiscal	689,973	-	59,833	(630,140)
Business	254,294	-	-	(254,294)
Operation and Maintenance	866,440	-	7,490	(858,950)
Pupil Transportation	488,821	542,868	37,852	91,899
Central	174,226	-	2,178	(172,048)
Operation of Non-Instructional Services	3,296,709	27,547	12,603	(3,256,559)
Extracurricular Activities	4,000	-	3,958	(42)
Other	969,614	309,964	2,178	(657,472)
Intergovernmental	2,030	-	-	(2,030)
Interest and Fiscal Charges	94,150	-	-	(94,150)
<i>Total governmental activities</i>	<u>\$ 23,953,115</u>	<u>\$ 10,891,290</u>	<u>\$ 4,478,778</u>	<u>(8,583,047)</u>
General Revenues				
Grants and Entitlements not				
Restricted to Specific Purposes				8,119,144
Unrestricted Investment Earnings				133,614
Miscellaneous				219,599
Gain on Sale of Assets				2,199
<i>Total general revenues</i>				<u>8,474,556</u>
Change in net assets				(108,491)
<i>Net assets - Beginning of Fiscal Year</i>				<u>5,727,048</u>
<i>Net assets - End of Fiscal Year</i>				<u>\$ 5,618,557</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Balance Sheet
Governmental Funds
June 30, 2003**

	General	Auxiliary Service	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,924,911	\$ 814,580	\$ 2,641,503	\$ 7,380,994
Receivables:				
Accounts	606,767	37,467	7,417	651,651
Intergovernmental	-	-	302,681	302,681
Accrued Interest	7,854	314	-	8,168
Prepaid Items	24,201	-	-	24,201
<i>Total Assets</i>	<u>4,563,733</u>	<u>852,361</u>	<u>2,951,601</u>	<u>8,367,695</u>
Liabilities				
Accounts Payable	293,323	-	58,637	351,960
Accrued Wages and Benefits	797,130	289,839	62,926	1,149,895
Pension Obligation Payable	112,524	41,659	8,791	162,974
Deferred Revenue:				
Customer Services	-	23,183	-	23,183
<i>Total Liabilities</i>	<u>1,202,977</u>	<u>354,681</u>	<u>130,354</u>	<u>1,688,012</u>
Fund Balances				
Reserved for Encumbrances	619,402	172,448	969,514	1,761,364
Unreserved , Reported in:				
General Fund	2,741,354	-	-	2,741,354
Special Revenue Funds	-	325,232	1,807,066	2,132,298
Capital Projects Funds	-	-	44,667	44,667
<i>Total Fund Balances</i>	<u>3,360,756</u>	<u>497,680</u>	<u>2,821,247</u>	<u>6,679,683</u>
<i>Total Liabilities and Fund Balances</i>	<u><u>\$ 4,563,733</u></u>	<u><u>\$ 852,361</u></u>	<u><u>\$ 2,951,601</u></u>	<u><u>\$ 8,367,695</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities**

Total Governmental Fund Balances		\$ 6,679,683
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,617,195
Other long-term assets are not available to pay current period expenditures and therefore are deferred in the funds		23,183
Some liabilities are not due and payable in the current		
Intergovernmental Payable	(81,221)	
Loans Payable	(1,705,000)	
Debt Due within 1 Year-Compensated Absences	(1,054,283)	
Debt Due within 1 Year-Capital Leases	(861,000)	(3,701,504)
	<u> </u>	<u> </u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 5,618,557</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	General	Auxiliary Services	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 8,119,144	\$ -	\$ 4,478,778	\$ 12,597,922
Investment Income	127,341	6,273	-	133,614
Tuition	2,304,261	-	240,815	2,545,076
Extracurricular Activities	4,364	-	-	4,364
Charges for Services	-	-	28,200	28,200
Classroom Materials and Fees	54,353	-	14,796	69,149
Customer Services	4,486,805	3,217,744	12,901	7,717,450
Transportation Fees	542,868	-	-	542,868
Miscellaneous	75,484	970	143,145	219,599
<i>Total Revenue</i>	<u>15,714,620</u>	<u>3,224,987</u>	<u>4,918,635</u>	<u>23,858,242</u>
Expenditures				
Current:				
Instruction:				
Regular	188,313	-	82,854	271,167
Special	6,682,820	-	266,025	6,948,845
Vocational	74,534	-	-	74,534
Adult/Continuing	-	-	12,008	12,008
Support Services:				
Pupils	2,172,536	-	984,199	3,156,735
Instructional Staff	1,766,044	-	2,446,644	4,212,688
Board of Education	34,053	-	-	34,053
Administration	2,086,225	-	273,672	2,359,897
Fiscal	646,338	-	57,346	703,684
Business	290,971	-	582	291,553
Operation and Maintenance	859,411	-	25,511	884,922
Pupil Transportation	457,204	-	31,490	488,694
Central	161,158	-	10,388	171,546
Operation of Non-Instructional	153,927	3,065,049	35,873	3,254,849
Other	-	-	4,000	4,000

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003
(Continued)**

	General	Auxiliary Services	Other Governmental Funds	Total Governmental Funds
Expenditures (Continued)				
Facility Acquisition and Construction Services	1,101,862	-	332,029	1,433,891
Intergovernmental	-	-	2,030	2,030
Debt Service:	-			
Principal Retirement	966,000	-	-	966,000
Interest and Fiscal Charges	121,403	-	4,373	125,776
<i>Total Expenditures</i>	<u>17,762,799</u>	<u>3,065,049</u>	<u>4,569,024</u>	<u>25,396,872</u>
Excess of Revenues Over / (Under) Expenditures	<u>(2,048,179)</u>	<u>159,938</u>	<u>349,611</u>	<u>(1,538,630)</u>
Other Financing Sources (Uses)				
Proceeds of Loans	955,000	-	750,000	1,705,000
Proceeds from Sale of Fixed Assets	2,199	-	-	2,199
Inception of Capital Lease	111,625	-	-	111,625
<i>Total Other Sources (Uses)</i>	<u>1,068,824</u>	<u>-</u>	<u>750,000</u>	<u>1,818,824</u>
<i>Net Change in Fund Balance</i>	(979,355)	159,938	1,099,611	280,194
<i>Fund Balances at Beginning of Year</i>	<u>4,340,111</u>	<u>337,742</u>	<u>1,721,636</u>	<u>6,399,489</u>
<i>Fund Balances End of Year</i>	<u>\$ 3,360,756</u>	<u>\$ 497,680</u>	<u>\$ 2,821,247</u>	<u>\$ 6,679,683</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities**

Net Change in Fund Balances-Total Governmental Funds **\$ 280,194**

*Amounts reported in governmental activities in
the statement of activities are different because:*

Governmental funds report capital outlays as expenditures.

However, in the statement of activity the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays was over (under) depreciation in the current period.

Capital Outlays	\$ 688,471	
Depreciation	<u>(34,935)</u>	653,536

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

Customer Services	23,183	
Grants	<u>(39,000)</u>	(15,817)

Loan Proceeds and inception of capital leases provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of loans and capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets.

Loans Proceeds	(1,705,000)	
Inception of capital leases	(111,625)	
Capital Lease Principal Payments	966,000	
Pension Obligation	<u>45,728</u>	(804,897)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.

31,626

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures governmental funds.

Intergovernmental	(81,221)	
Compensated Absences	<u>(171,912)</u>	<u>(253,133)</u>

Change in Net Assets of Governmental Activities \$ (108,491)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2003**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues				
Intergovernmental	\$ 6,883,660	\$ 7,995,906	\$ 8,119,144	\$ 123,238
Earnings on Investments	291,453	291,453	135,591	(155,862)
Food Services	3,500	3,500	4,364	864
Tuition	1,584,808	1,914,674	2,241,005	326,331
Miscellaneous	4,105,110	4,415,654	5,016,046	600,392
Classroom Material and Fees	54,952	54,952	57,977	3,025
Transportation Fees	430,299	490,122	520,185	30,063
Miscellaneous	-	-	496	496
<i>Total Revenues</i>	<u>13,353,782</u>	<u>15,166,261</u>	<u>16,094,808</u>	<u>928,547</u>
Expenditures				
Current:				
Instruction:				
Regular	175,957	189,894	190,765	(871)
Special	6,508,314	6,923,199	6,653,704	269,495
Vocational	75,744	75,121	73,796	1,325
Support Services:				
Pupils	1,960,944	2,197,218	2,121,347	75,871
Instructional Staff	2,033,285	2,012,480	1,800,402	212,078
Board of Education	28,791	39,627	38,063	1,564
Administration	2,420,250	2,162,301	2,070,527	91,774
Fiscal	604,426	680,124	650,947	29,177
Business	310,181	302,974	277,924	25,050
Operation and Maintenance of Plant	882,101	1,027,477	880,888	146,589
Pupil Transportation	451,425	601,742	585,013	16,729
Central	155,375	177,251	166,074	11,177
Operation of Non-Instructional Services	165,104	183,139	166,168	16,971
Capital Outlay	882,271	1,536,681	1,511,542	25,139
Repayment of Debt				
Principal	324,000	1,289,785	966,000	323,785
Interest	-	81,605	81,390	215
<i>Total Expenditures</i>	<u>16,978,168</u>	<u>19,480,618</u>	<u>18,234,550</u>	<u>1,246,068</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,624,386)</u>	<u>(4,314,357)</u>	<u>(2,139,742)</u>	<u>2,174,615</u>

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual Comparison
General Fund
For the Fiscal Year Ended June 30, 2003
(Continued)**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
Sale and Loss of Assets	2,004	2,004	2,199	195
Refund of Prior Year Expenditures	44,698	44,698	45,060	362
Proceeds of Loans	925,000	996,613	1,026,613	30,000
Operating Transfers Out	-	(670,200)	(670,200)	-
Operating Transfers In	16,000	16,000	670,200	654,200
<i>Total Other Financing Sources (Uses)</i>	<u>987,702</u>	<u>389,115</u>	<u>1,073,872</u>	<u>684,757</u>
<i>Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses</i>	(2,636,684)	(3,925,242)	(1,065,870)	2,859,372
<i>Fund Balances (Deficit) at Beginning of Year</i>	4,063,478	4,063,478	4,063,478	-
Prior Year Encumbrances Appropriated	1,099,807	1,099,807	1,099,807	-
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 2,526,601</u>	<u>\$ 1,238,043</u>	<u>\$ 4,097,415</u>	<u>\$ 2,859,372</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget (Non-GAAP Basis) and Actual Comparison
Auxiliary Service Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Earnings on Investments	\$ 7,719	\$ 7,719	\$ 6,602	\$ (1,117)
Customer Services	2,858,018	2,936,651	3,415,983	479,332
Miscellaneous	-	-	970	970
<i>Total Revenues</i>	<u>2,865,737</u>	<u>2,944,370</u>	<u>3,423,555</u>	<u>479,185</u>
Expenditures				
Operation of Non-Instructional Services	3,005,369	3,215,015	3,225,350	(10,335)
<i>Total Expenditures</i>	<u>3,005,369</u>	<u>3,215,015</u>	<u>3,225,350</u>	<u>(10,335)</u>
Excess of Revenues Over/ (Under) Expenditures	<u>(139,632)</u>	<u>(270,645)</u>	<u>198,205</u>	<u>468,850</u>
Other Financing Sources (Uses)				
Operating Transfers Out	(5,576)	(5,576)	(7,348)	(1,772)
Operating Transfers In	-	-	7,348	7,348
<i>Total Other Financing Sources (Uses)</i>	<u>(5,576)</u>	<u>(5,576)</u>	<u>-</u>	<u>5,576</u>
<i>Excess of Revenues and Other Financing Sources Over/(Under) Expenditures and Other Financing Uses</i>	<u>(145,208)</u>	<u>(276,221)</u>	<u>198,205</u>	<u>474,426</u>
<i>Fund Balances at Beginning of Year</i>	435,530	435,530	435,530	-
Prior Year Encumbrances Appropriated	<u>8,395</u>	<u>8,395</u>	<u>8,395</u>	<u>-</u>
<i>Fund Balances at End of Year</i>	<u><u>\$ 298,717</u></u>	<u><u>\$ 167,704</u></u>	<u><u>\$ 642,130</u></u>	<u><u>\$ 474,426</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2003**

	<u>Agency</u>
Assets	
Equity In Pooled Cash and Cash Equivalents	\$ 2,052,024
Accounts Receivable	149,775
	<hr/>
<i>Total Assets</i>	<u>\$ 2,201,799</u>
Liabilities	
Accounts Payable	\$ 999,150
Accrued Wages and Benefits Payable	20,048
Intergovernmental Payable	3,097
Held and Due to Others	1,179,504
	<hr/>
<i>Total Liabilities</i>	<u>\$ 2,201,799</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003

1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

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

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

Reporting Entity

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

As of June 30, 2003, LCESC 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 LCESC.

Jointly Governed Organizations

Penta Career Center (Penta) is a jointly governed organization, established by the Ohio Revised Code (ORC) to provide vocational and special needs to students. Penta accepts

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

non-tuition students from LCESC as a member school. LCESC does not retain an ongoing financial interest or responsibility in Penta.

The LCESC is a member of the Northwest Ohio Computer Association, one of over two-dozen such consortiums in the State. This consortium was organized in accordance with Ohio statute.

Information about these organizations is presented in Note 13 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of LCESC 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. LCESC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental type activities. LCESC does not have any business-type funds. Following are the more significant of LCESC's accounting policies.

A. Basis of Presentation

Government-Wide Financial Statements

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

The statement of net assets presents the financial condition of the governmental activities of LCESC at fiscal year-end. The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function of LCESC's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of LCESC, with certain limited exceptions. The comparison of direct expenses with

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of LCESC.

Fund Financial Statements

During the year, LCESC segregates transactions related to certain LCESC functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of LCESC at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

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

GOVERNMENTAL FUNDS

Governmental funds focus on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may be or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The General and Auxiliary Service Funds are LCESC's only major funds:

General Fund

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

Auxiliary Service Fund

This fund accounts for funds which provide service and materials to pupils attending parochial schools.

The other governmental funds of LCESC account for grants and other resources, and capital projects whose uses are restricted to a particular purpose.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Monies are due to others for LCESC activities they have participated in

C. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and others financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

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

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

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Customer service revenue received before services have been rendered is recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgetary Process

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

LCESC 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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

Upon review by LCESC'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.

Appropriations

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

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 LCESC's Board.

LCESC 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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

F. Cash and Investments

To improve cash management, all cash received by LCESC is pooled in a central bank account. Monies for all funds are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through LCESC's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2003, investments were limited to nonnegotiable certificates of deposit and STAR Ohio. Investments are reported at fair value which is based on quoted market prices. Investment contracts and money market investments that had a maturity of one year or less at the time of purchase are reported at cost or amortized cost.

LCESC has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2003. 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, 2003.

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the general fund during fiscal year 2003 amounted to \$143,445 which includes \$66,477 assigned from other LCESC Funds.

For presentation on the financial statements, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by LCESC are considered to be cash equivalents. Investments with an initial maturity of more than three months that are not purchased from the pool are reported as investments.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

H. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the government funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market value as of the date received. LCESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	40
Improvements Other than Buildings	15
Furniture and Equipment	8-10
Vehicles	5

I. Compensated Absences

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

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service; or twenty (20) years' service at any age were considered expected to become eligible to retire in accordance with GASB 16.

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

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

J. Accrued Liabilities and Long-Term Obligations

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

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund statements only to the extent they are due for payment during the current year. Long term loans are recognized as a liability on the governmental fund financial statements when due.

K. Net Assets

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

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

L. Fund Balance Reserves

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

M. Interfund Transactions

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

N. Estimates

The preparation of the 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.

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of LCESC and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2003.

3. CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE

A. Changes in Accounting Principles

During fiscal year 2003, LCESC increased the capitalization level of its governmental activities capital assets from \$250 to \$5,000. This change reduced fixed assets, at cost, by \$767,875 as of July 1, 2002, from \$3,092,493 to \$2,324,618.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

For fiscal year 2003, LCESC has implemented GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments"; GASB No. 37 "Basic Financial Statements for State and Local Governments: Omnibus", GASB No. 38, "Certain financial Statement Note Disclosures", GASB No. 41, "Budgetary Comparison Schedules- Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At June 30, 2002, there was no effect on fund balance as a result of implementing GASB 37 and 38.

GASB 34 creates new basic financial statements for reporting on LCESC's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column. Fiduciary funds are reported by type.

The government-wide financial statements show LCESC's programs as governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental fund at June 30, 2002, based on the guidance provided in Statement No. 34 and by the conversion to the accrual basis of accounting.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization or program structure that the government uses for its legally adopted budget when significant budgetary perspective differences result in the ESC not being able to present budgetary comparisons for the general and each major special revenue fund. This statement had no effect on the budgetary presentation for LCESC for fiscal year 2003.

GASB Interpretation of No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

B. Restatement of Fund Balance

The restatements of GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of LCESC as they were previously reported.

The transition from governmental fund balance to net assets of the governmental activities is also presented.

	<u>General</u>	<u>Auxiliary Services</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 4,246,020	\$ 334,920	\$ 1,714,957	\$ 6,295,897
Interpretation 6 Adjustment:				
Compensated Absences Payable	<u>94,091</u>	<u>2,822</u>	<u>6,679</u>	<u>103,592</u>
Adjusted Fund Balance	<u>\$ 4,340,111</u>	<u>\$337,742</u>	<u>\$1,721,636</u>	<u>6,399,489</u>
 GASB 34 Adjustments:				
Capital Assets				1,963,659
Accrued Interest Payable				(31,626)
Long-Term Liabilities				(2,643,474)
Long-Term (Deferred) Assets				<u>39,000</u>
Governmental Activities Net Assets, June 30, 2002				<u>\$5,727,048</u>

4. BUDGETARY BASIS OF ACCOUNTING

While LCESC is reporting financial position, results of operations and changes in fund balance 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 Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for each major governmental fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

3. Encumbrances are treated as expenditures (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 for the general fund:

	Net Change in Fund Balance	
	General	Auxiliary Services
Budget Basis	\$ (1,065,870)	\$ 198,205
Adjustments:		
Revenue Accruals:		
Accrued FY2002, Received in Cash FY2003	(1,039,373)	(213,164)
Accrued FY2003, Not Yet Received in Cash	659,681	14,598
Expenditure Accruals:		
Accrued FY2002, Paid in Cash FY2003	893,328	319,349
Accrued FY2003, Not Yet Paid in Cash	(1,218,790)	(331,498)
Encumbrances	796,717	172,448
Other Financial Sources/Uses:		
Advances (Net)		
Inception of Lease	111,625	-
Proceeds of Loans	(71,613)	-
Refunds	(45,060)	-
GAAP Basis	\$ (979,355)	\$ 159,938

5. DEPOSITS AND INVESTMENTS

Deposits

Statutes require the classification of monies held by LCESC into three categories:

Active Deposits: those monies required to be kept in a "cash" or "near-cash" status for immediate use by LCESC. Such monies must by law be maintained either as cash in the LCESC treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

Inactive Deposits: those monies not required for use within the current two year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits: 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.

Protection of LCESC'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 money deposited with the institution.

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;
2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the 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 repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market 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 (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

made only through eligible institutions mentioned in section 135.03 of the Revised Code;

6. The State Treasurer's Investment pool;

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of LCESC, 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 LCESC's deposits was \$6,553,573 and the bank balance was \$7,426,696. Of the bank balance, \$582,000 was covered by federal depository insurance.

Investments

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

	Carrying Value	Fair Value
Category 2:		
Repurchase Agreements	\$ 795,406	\$ 795,406
Not Subject to Categorization:		
STAR Ohio	2,084,039	2,084,039
<i>Total Investments</i>	\$ 2,879,445	\$ 2,879,445

A reconciliation between the classifications of pooled cash and cash equivalents and investments on the Combined Balance Sheet and the classifications of deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$ 9,433,018	\$ -
STAR Ohio	(2,084,039)	2,084,039
Repurchase Agreements	(795,406)	795,406
GASB Statement 3	\$ 6,553,573	\$ 2,879,445

6. RECEIVABLES

Receivables at June 30, 2003, consisted of interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Governmental Activities Type	
Accounts Receivable:	
General Fund	\$ 606,767
Auxiliary Services Fund	37,467
Other Governmental Funds	7,417
Total Accounts Receivable	651,651

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Receivables	Amount
Intergovernmental Receivables:	
Other Governmental Funds	302,681
Accrued Interest Receivable	
General Fund	7,854
Auxiliary Services Fund	314
Total Accrued Interest Receivable	8,168
<i>Total Governmental Activities</i>	<i>962,500</i>
Fiduciary-Type Activities	
Accounts Receivable:	149,775
<i>Grand Total</i>	<i>\$ 962,500</i>

7. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance 07/01/02	Additions	Deductions	Balance 06/30/03
Governmental Activities				
Buildings and Improvements	\$ 1,868,603	\$ 455,125		\$ 2,323,728
Improvements Other than Buildings	1,953	33,240		35,193
Furniture, Fixtures, and Equipment	434,677	200,106		634,783
Vehicles	19,385			19,385
Totals at Historical Cost	2,324,618	688,471	-	3,013,089
Less Accumulated Depreciation:				
Buildings	121,644	11,378		133,022
Improvements other than Buildings	521	2,346		2,867
Furniture, Fixtures, and Equipment	229,640	20,011		249,651
Vehicles	9,154	1,200		10,354
Total Accumulated Depreciation	360,959	34,935		395,894
Governmental Activities				
Capital Assets, Net	\$ 1,963,659	\$ 653,536	\$ -	\$ 2,617,195

* Depreciation expense was charged to governmental functions as follows:

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

Support Service:	
Business	\$ 698
Facilities Acquisition and Construction Services	31,442
Instructional Staff	2,795
Total Depreciation Expense	<u>\$ 34,935</u>

The following estimated useful lives are used to compute depreciation:

Buildings and Improvements	40 years
Improvements other than Buildings	15 years
Furniture, Fixtures, and Equipment	8-10 years
Vehicles	5 years

8. RISK MANAGEMENT

LCESC does not have a "self-insurance" fund with formalized risk management programs.

LCESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. During fiscal year 2003, LCESC contracted for the following insurance coverages:

Coverages provided by Dussel Insurance Agency:	
Commercial Property (\$1,000 deductible)	\$ 465,000
Building (\$1,000 Deductible)	6,330,000
General Liability	
Per Occurrence	1,000,000
Aggregate	2,000,000
Business Income III and Extra Expense	120,300

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.

9. DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

LCESC contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

School Employees Retirement Board. SERS provides 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 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, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9 percent of their annual covered salary and LCESC was required to contribute an actuarially determined rate. The rate for fiscal year 2003 was 14 percent of annual covered payroll; 8.17 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employees are established and may be amended, up to the statutory maximum amounts, by the SERS Retirement Board. LCESC's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2003, 2002 and 2001, was \$194,993, \$121,092 and \$246,295 respectively; 82.07 percent has been contributed for fiscal year 2003, and 100 percent for fiscal years 2002 and 2001.

B. State Teachers Retirement System

LCESC 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 retirement and disability benefits to members and death and survivor benefits to 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. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

New members have a choice of three retirement plans, a Defined Benefit Plan (DBP), a Defined Contribution Plan (DCP), and a Combined Plan (CP). The DBP offers an annual retirement allowance based on final average salary multiplied by a percentage that varies based on years of service or on an allowance based on member contributions and earned interest matched by STRS funds multiplied by an actuarially determined annuity factor. The DCP allows members to place all of their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age fifty and termination of employment. The CP offers features of both the DBP and DCP. In the

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

CP, member contributions are invested by the member and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DBP. DCP and CP members will transfer to the DBP during their fifth year of membership unless they permanently select the DCP of CP. Existing members with less than five years of service credit as of June 30, 2001, were given the option of making a one time irrevocable decision to transfer their account balance from the existing DBP into the DCP or CP. This option expired on December 31, 2001.

A DBP or CP member with five or more years of credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DCP who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

For the fiscal year ended June 30, 2003, plan members were required to contribute 9.3 percent of their annual covered salary and LCESC was required to contribute 14 percent; 13 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.

LCESC's required contribution for pension obligations for the DBP for the fiscal years ended June 30, 2003, 2002, and 2001 was \$1,393,492, \$963,404, and \$1,266,298, respectively; 99.26 percent has been contributed for fiscal year 2003 and 100 percent has been contributed for fiscal years 2002 and 2001. Contributions for the DCP and CP for the fiscal year ended June 30, 2003, were \$19,396 made by LCESC and \$33,834 made by plan members.

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, 2000 four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

10. POSTEMPLOYMENT BENEFITS

LCESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired classified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs, and 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 the statutory 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 2003, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For LCESC, this amount was \$108,684.

STRS pays health care benefits from the Health Care Reserve Fund. The balance in the Fund was \$3,011 million at June 30, 2002 (the latest information available). For the fiscal year ended June 30, 2002, net health care costs paid by STRS were \$354,697,000, and STRS had 105,300 eligible benefit recipients.

For SERS, coverage is made available to service retirees with ten or more years of qualifying service credit, and to 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 their premium.

For the fiscal year ended June 30, 2003, employer contributions to fund health care benefits were 5.83 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2003, the minimum pay was established at \$14,500. For LCESC, the amount used to fund health care benefits, including the surcharge, was \$139,144 for fiscal year 2003.

The surcharge, added to the unallocated portion of the 14 percent employer contribution rate, provides for maintenance of the asset target level for the health care fund. The target level for the health care reserve is 150 percent of annual health care expenses. Expenses for health care at June 30, 2002 (the latest information available), were \$182,946,777, and

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

the target level was \$274.4 million. At June 30, 2002, SERS had net assets available for payment of health care benefits of \$335.2 million. SERS has approximately 50,000 participants currently receiving health care benefits.

11. LONG-TERM LIABILITIES

The changes in LCESC's long-term obligations during the fiscal year consist of the following:

	Principal Outstanding 07/01/02	Additions	Reductions	Principal Outstanding 06/30/03	Amounts Due In One Year
Governmental Activities					
Sky Bank Loan					
Shuer/Challenger Centers					
3.17%, Issued 5/5/03 Matures					
6/1/2024	\$ -	\$ 30,000	\$ -	\$ 30,000	\$ 30,000
Sky Bank Loan					
Challenger Center					
3.70%, Issued 1/22/03 Matures					
7/22/2010	-	750,000	-	750,000	87,306
Sky Bank Loan					
Shuer Center					
3.17%, Issued 5/5/03 Matures					
6/5/2023	-	925,000	-	925,000	31,132
Compensated Absences	882,371	171,912	-	1,054,283	335,648
Pension Obligation Payable	45,728	-	45,728	-	-
Capital Lease Payable	1,715,375	111,625	966,000	861,000	328,000
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 2,643,474</u>	<u>\$ 1,988,537</u>	<u>\$ 1,011,728</u>	<u>\$ 3,620,283</u>	<u>\$ 812,086</u>

Sky Bank represents long term loans issued to finance renovation and construction of Challenger and Shuer Centers.

LCESC executed a \$575,000 loan with Sky Bank for which LCESC had drawn \$30,000 at June 30, 2003, and is committed to draw the \$545,000 loan proceed balance in the future.

Capital Leases Payable represent the OASBO lease agreements executed by LCESC in fiscal year 2002 to lease the Collingwood and Shuer Centers.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

Compensated absences will be paid from the fund from which the employees' salaries are paid. Pension obligation payable, representing LCESC's SERS surcharge was paid before year-end this fiscal year.

Principal and Interest requirement to retire LCESC's General Obligation loans outstanding at June 30, 2003, were as follows:

<u>Year Ending June 30</u>	<u>Sky Bank Loan Liability</u>
2004	\$ 207,899
2005	185,256
2006	185,257
2007	184,954
2008	184,954
2009-2013	568,887
2014-2018	314,689
2019-2023	<u>314,688</u>
Total Minimum Loan Payments	2,146,584
Less: Amount Representing Interest	<u>(441,584)</u>
Present Value of Future Minimum Loan Payment	<u><u>\$ 1,705,000</u></u>

12. CAPITALIZED LEASES - LESSEE DISCLOSURE

LCESC has entered into a five-year lease of the Collingwood and Shuer Centers with OASBO. The lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13 "Accounting for Leases" which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee at the conclusion of the lease term. Capital lease payments have been reclassified and are reflected as debt service expenditures in the Statement of Revenues, Expenditures and Changes in Net Assets for the Governmental Funds and as function expenditures on the budgetary basis. Capital assets acquired by lease have been capitalized in an amount equal to the present value of the future minimum lease payments as of the date of their inception.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2003:

Year Ending June 30	Capital Lease Liability
2004	\$ 352,836
2005	191,823
2006	190,889
2007	191,305
Total Minimum Lease Payments	926,853
Less: Amount Representing Interest	(65,853)
Present Value of Future Minimum Lease Payment	<u>\$ 861,000</u>

13. 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. LCESC's payments to Penta for the period ended June 30, 2003, totaled \$2,763. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from Penta, Carrie Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

B. Northwest Ohio Computer Association

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2003 (Continued)

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. LCESC's payments to NWOCA for the period ended June 30, 2002, totaled \$60,170.

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.

14. CONTINGENT LIABILITIES

A. Grants

LCESC receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and 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 effect on any of the financial statements of the individual fund types included herein or on the overall financial position of LCESC at June 30, 2003.

B. Litigation

LCESC is involved in no material litigation as either plaintiff or defendant.

C. 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..." LCESC is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2003
(Continued)**

15. COMPLIANCE AND ACCOUNTABILITY

A. Accountability

At June 30, 2003, the Motorcycle Safety, Miscellaneous State Grants, Eisenhower Grant, and RPDC – Ohio Mathematics Academy funds had deficit cash balances of \$24,192, \$46,896, 68,447, and \$22,965, 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, 2003.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Regular Instruction	\$ 189,894	\$ 190,765	\$ (871)
Auxiliary Fund:			
Operation of Non-Instructional Service	3,215,015	3,225,350	(10,335)

C. Fiscal Officer's Certification

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE <i>Passed Through Ohio Department of Education</i>				
Child and Adult Care Food Program	048199-CCCP-2003	10.558	\$36	\$36
	048199-CCMO-2003		68	68
Total U.S. Department of Agriculture - Nutrition Cluster			104	104
U.S. DEPARTMENT OF EDUCATION <i>Passed Through Ohio Department of Education</i>				
Special Education Cluster:				
Special Education Grants to States (IDEA Part B)	048199-6BSD-2002-I	84.027	42,000	42,388
	048199-6BSE-2003-P		15,000	14,610
Special Education - Preschool Grant (IDEA, Part B)	048199-PGS1-2002-I	84.173	56,703	18,445
	048199-PGS1-2003-P		80,797	80,240
Total Special Education Cluster			194,500	155,683
Safe and Drug -Free Schools and Communities National Programs (Title IV, Part A)	048199-T4S1-2003	84.184	5,683	5,633
Eisenhower Professional Development State Grants (Title II, Part B)	048199-MSS2-2002	84.281	170,825	153,178
	048199-MSS2-2003			68,398
Twenty-First Century Community Learning Centers (Title IV, Part B)	048199-T1S1-2003	84.287	60,102	183,214
Improving Teacher Quality State Grants (Title II, Part A)	048199-TRSA-2003	84.367	170,825	132,518
Learn and Serve America School and Community Based Program	048199-SVS2-2003	94.004	3,000	2,601
Goals 2000 - State and Local Education Systemic Improvement	048199-G2SP-2001	84.276		50,563

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003
(Continued)**

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF EDUCATION (Continued)				
Grants to Local Educational Agencies (ESEA Title I)	048199-C1S1-2003	84.010		1,823
Drug-Free Schools Grant (Title IV, Part A)	048199-DRS2-2002 048199-DRS2-2003	84.186	311,505	142,302 95,657
Total Department of Education			916,440	991,570
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES <i>Passed Through Ohio Department of Jobs and Family Services</i>				
Workplace Investment Act		17.259	1,057,515	693,777
U.S. DEPARTMENT OF DEFENSE				
Jr. R.O.T.C.		12.XXX	63,980	72,497
U.S. DEPARTMENT OF TRANSPORTATION				
State and Community Highway Safety		20.600	58,419	38,508
Totals			\$ 2,096,458	\$ 1,796,456

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2003**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

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**Auditor of State
Betty Montgomery**

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

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

To the Lucas County Educational Service Center:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center (LCESC) as of and for the year ended June 30, 2003, which collectively comprise LCESC's basic financial statements, and have issued our report thereon dated June 30, 2004, in which we noted LCESC implemented Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and changed its capital asset threshold amount. 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 LCESC'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 and questioned costs as item 2003-001. We also noted a certain immaterial instance of noncompliance that we have reported to management of LCESC in a separate letter dated July 6, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LCESC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect LCESC's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A Reportable Conditions is described in the accompanying schedule of findings and questioned costs as item 2003-002.

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 consider the reportable condition described above to be 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 LCESC in a separate letter dated July 6, 2004.

This report is intended for the information and use of the audit committee, management, the Board of LCESC, 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.



Betty Montgomery
Auditor of State

July 6, 2004



**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***

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

To the Lucas County Educational Service Center:

Compliance

We have audited the compliance of the Lucas County Educational Service Center (LCESC) 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, 2003. LCESC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of LCESC's management. Our responsibility is to express an opinion on LCESC'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 LCESC'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 LCESC's compliance with those requirements.

As described in items 2003-003 and 2003-004, in the accompanying schedule of findings and questioned costs, LCESC did not comply with requirements regarding the period of availability

that are applicable to its Drug Free Schools and Eisenhower Professional Development Grant Programs. Compliance with such requirements is necessary, in our opinion, for LCESC to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, LCESC 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, 2003.

Internal Control Over Compliance

The management of LCESC 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 LCESC'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 LCESC, 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.



Betty Montgomery
Auditor of State

July 6, 2004

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Findings and Questioned Costs

OMB Circular A -133 §.505

June 30, 2003

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)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	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	Qualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Eisenhower CFDA # 84.281 Safe and Drug Free Schools CFDA # 84.186
<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 2003-001

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.

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 (\$3,000 after April 7, 2003) the fiscal officer may authorize it to be paid without the affirmation of the taxing authority, if such expenditure is otherwise valid.

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

FINDING NUMBER 2003-002

Material Weakness over Fixed Assets

The following weaknesses exist over fixed assets:

- LCESC has not developed a fixed asset accounting system or implemented procedures to assist with maintaining total fixed asset listings, by location, with tag identification numbers, and other supplemental information, inclusive of accounting for additions when purchased, and deletions when disposed of throughout the fiscal year.

FINDING NUMBER 2003-002
(Continued)

- LCESC has not periodically inventoried its capital assets.
- LCESC does not have procedures in place to accurately determine depreciation/accumulated depreciation, nor to assign assets to a function in order to allocate depreciation to functions.

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 LCESC's assets will be misstated, we recommend:

- The Governing Board develops and implements procedures to be performed throughout the year, for recording and updating fixed assets. These procedures should include tagging all assets meeting LCESC's capitalization criteria. Further, addition and disposal forms should be completed by LCESC 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, function assigned to, and any other supporting documentation.
- LCESC develops and implements procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting all 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.
- LCESC develop and maintain a system of recording and accumulating fixed asset depreciation. Deletions of equipment should be should be reduced from accumulated depreciation based on the value of depreciation at date of disposition.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

FINDING NUMBER 2003-003

Questioned Costs

CFDA Title and Number	Eisenhower Professional Development Grant - 84.281
Federal Award Number/Year	2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

34CFR 80.23(b) states, in pertinent part, that “a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual Financial Status Report. The Federal agency may extend this deadline at the request of the grantee.” Also, 34CFR80.50(D)(2) states “the grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants.”

LCESC transferred \$90,103 in Eisenhower grant funds to an agency fund, while recording these funds as if they had been spent for salaries, fringe benefits, supplies, and purchased services. In fact, these funds were not yet encumbered for any specific purpose, but were reported as expenditures on the Final Expenditure Report submitted to ODE. No carryover letter or time extension was sought for the continued expensing of these funds. As a result, we are questioning the \$90,103.

We recommend the Service Center (1) discontinue the practice of transferring unused grant funds to agency funds without appropriate approval from ODE, (2) remit these unused grant monies to ODE, and (3) report only those monies actually spent in its grant Final Expenditure Reports.

LCESC has contacted the grantor agency, has resubmitted its final expenditure report, and is awaiting notification from the grantor agency in order to remit repayment of the above-stated amount.

FINDING NUMBER 2003-004

Questioned Costs

CFDA Title and Number	Drug-Free Schools Grant - 84.186
Federal Award Number / Year	2003
Federal Agency	United States Department of Education
Pass-Through Agency	Ohio Department of Education

34CFR 80.23(b) states, in pertinent part, that “a grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual Financial Status Report. The Federal agency may extend this deadline at the request of the grantee.” Also, 34CFR80.50(D)(2) states “the grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants.”

LCESC transferred \$59,810 in Safe and Drug Free Schools grant funds to an agency fund, while recording these funds as if they had been spent for salaries, fringe benefits, and supplies. In fact, these funds were not yet encumbered for any specific purpose, but were reported as expenditures on the Final Expenditure Report submitted to ODE. No carryover letter or time extension was sought for the continued expensing of these funds. As a result, we are questioning the \$59,810.

We recommend the Service Center (1) discontinue the practice of transferring unused grant funds to agency funds without appropriate approval from ODE, (2) remit these unused grant monies to ODE, and (3) report only those monies actually spent in its grant Final Expenditure Reports.

LCESC has contacted the grantor agency, has resubmitted its final expenditure report, and is awaiting notification from the grantor agency in order to remit repayment of the above-stated amount.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Prior Audit Findings
June 30, 2003**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2002-10148-001	Ohio Revised Code Citation § 5705.41(D)	No	Not corrected. Reissued as finding number 2003-001.
2002-10148-002	Reportable Condition over Inventory of Fixed Assets	No	Not corrected. Reissued as a material weakness as finding number 2003-002.



**Auditor of State
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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
AUGUST 17, 2004**