



**EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2005



**Auditor of State
Betty Montgomery**

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities.....	10
Fund Financial Statements:	
Balance Sheet - Governmental Funds	11
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities	12
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison - General Fund	15
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison – Auxiliary Service Fund	17
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison – Community Schools Operations Fund	18
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Comparison – Miscellaneous State Grants Fund	19
Statement of Fiduciary Net Assets - Fiduciary Fund	20
Notes to the Basic Financial Statements	21
Schedule of Federal Award Expenditures	42
Notes to the Schedule of Federal Awards Expenditures.....	44
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	45
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133	47
Schedule of Findings.....	49
Status of Prior Audit Findings.....	53

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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 Service 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, 2005, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center as of June 30, 2005, and the respective changes in financial position, thereof and the respective budgetary comparisons for the General, Auxiliary Service, Community Schools Operations, and Miscellaneous State Grant Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2006, on our consideration of the LCESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise LCESC's basic financial statements. The federal awards expenditure schedule 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 federal awards expenditure schedule 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

May 16, 2006

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

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, 2005. The intent of this discussion and analysis is to look at LCESC's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of LCESC's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- Total Net Assets were \$6,322,089
- Total Revenue was \$27,363,862
- Total Expenses were \$26,223,947
- Changes in Net Assets were \$1,139,915
- Capital Assets, net of Depreciation, increased from \$3,610,414 to \$3,627,916.

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, the Community Schools Operations Fund, the Miscellaneous State Grant Fund, and all other non-major funds presented in total in one column. In the case of LCESC, the General, Auxiliary Service, Community Schools Operations, and Miscellaneous State Grant 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 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and 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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

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, Auxiliary Service Fund, Community Schools Operations Fund, and the Miscellaneous State Grants 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.

Table 1 provides a summary of LCESC's net assets for 2005 compared to 2004.

Table 1 Net Assets Governmental Activities		
	2005	2004
Assets		
Current and Other Assets	\$ 8,366,301	\$ 7,286,054
Capital Assets	3,627,916	3,610,414
<i>Total Assets</i>	11,994,217	10,896,468
Liabilities		
Long-term Liabilities	3,384,561	3,785,550
Other Liabilities	2,287,567	1,928,744
<i>Total Liabilities</i>	5,672,128	5,714,294

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Table 1 (Continued)
Net Assets
Governmental Activities

	2005	2004
Net Assets		
Invested in Capital Assets, Net of Debt	1,291,865	947,848
Restricted	935,977	866,377
Unrestricted (Deficit)	4,094,247	3,367,949
<i>Total Net Assets</i>	\$ 6,322,089	\$ 5,182,174

Total assets increased \$1,097,749. Equity in pooled cash and cash equivalents increased \$597,873. Capital Assets increased \$17,502.

Table 2 shows the changes in net assets for fiscal year 2005 compared to 2004.

Table 2
Changes in Net Assets for Governmental Activities

	2005	2004
Revenue		
Program Revenues:		
Charges for Services	\$ 13,257,570	\$ 10,965,458
Operating Grants	3,943,293	3,745,375
General Revenue:		
Grants and Entitlements	8,707,651	8,576,442
Other	1,455,348	1,151,752
<i>Total Revenues</i>	27,363,862	24,439,027
Program Expenses		
Instruction	6,043,986	6,660,833
Support Services:		
Pupil and Instructional Staff	8,889,549	8,940,765
Board of Education, Administration, Fiscal and Business	5,286,792	3,812,018
Operations and Maintenance of Plant	959,025	942,943
Pupil Transportation	884,351	581,670
Central	114,016	179,412
Non-Instructional Services	3,965,813	3,581,734
Facilities Acquisition and Construction Services	10,138	63,815
Interest and Fiscal Charges	70,277	112,220
<i>Total Expenses</i>	26,223,947	24,875,410
<i>(Decrease) in Net Assets</i>	\$ 1,139,915	\$ (436,383)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)**

Governmental Activities

Instruction comprises 23 percent of governmental program expenses. Interest expense was \$70,277, 0.27 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
Governmental Activities

	2005		2004	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,043,986	\$ (6,627,156)	\$ 6,660,833	\$ (3,976,216)
Support Services:				
Pupil and Instructional Staff	8,889,549	5,888,627	8,940,765	5,897,436
Board of Education, Administration				
Fiscal and Business	5,286,792	5,021,454	3,812,018	3,597,679
Operation and Maintenance	959,025	955,750	942,943	917,873
Pupil Transportation	884,351	(60,365)	581,670	74,623
Central	114,016	113,245	179,412	166,895
Operation of Non-Instructional Services	3,965,813	3,651,114	3,581,734	3,343,236
Facilities Acquisition and Construction Services	10,138	10,138	63,815	30,831
Interest and Fiscal Charges	70,277	70,277	112,220	112,220
<i>Total Expenses</i>	<u>\$ 26,223,947</u>	<u>\$ 9,023,084</u>	<u>\$ 24,875,410</u>	<u>\$ 10,164,577</u>

The dependence upon state foundation revenues for governmental activities is apparent. Although no general revenues were used to fund instructional activities, LCESC's general revenue is 37.1 percent of total revenue. State foundation revenue, as a whole, is by far the primary support for LCESC.

LCESC's Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$27,119,055 and expenditures and other financing uses of \$27,111,585. The net change in General Fund balance for the year was a decline of \$451,587. This decline indicated LCESC needed to increase its revenue base to continue meeting LCESC obligations as a whole.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)

General Fund Budgeting Highlights

LCESC's budget 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 2005, 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 \$15,258,646, which is concurrent with the original budget estimates of \$14,237,247.

Much of this estimate was offset as the original appropriations of \$18,831,501 were decreased to \$18,374,033, with the largest decrease, \$116,678 for fiscal support services.

LCESC's ending unobligated cash balance was \$4,640,742 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, LCESC had \$4,174,143 invested in buildings, improvements, equipment, and vehicles. Table 4 shows fiscal 2005 balances compared to 2004:

Table 4
Capital Assets at June 30
(Net of Depreciation)
Governmental Activities

	2005	2004
Buildings and Improvements	\$ 3,045,393	\$ 3,079,862
Improvements Other than Buildings	78,950	72,820
Furniture, Fixtures, and Equipment	496,942	449,901
Vehicles	6,631	7,831
<i>Totals</i>	<u>\$ 3,627,916</u>	<u>\$ 3,610,414</u>

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

Debt

At June 30, 2005, LCESC had \$2,336,051 in capital leases and Sky Bank loans outstanding, \$337,091 due within one year. Table 5 summarizes capital leases and loans outstanding.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED
(Continued)

Table 5
Outstanding Debt, at Year End
Governmental Activities

	2005	2004
Sky Bank Loan	\$ 563,858	\$ 662,698
Sky Bank Loan	554,112	575,000
Sky Bank Loan	859,081	893,868
Capital Leases	359,000	531,000
<i>Total Outstanding Debt, at Year End</i>	<u>\$ 2,336,051</u>	<u>\$ 2,662,566</u>

Contacting LCESC'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 43620-1148. Or e-mail at lc_rac@nwoca.org.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Net Assets
June 30, 2005**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 6,505,191
Receivables:	
Accounts	1,256,012
Intergovernmental	589,023
Accrued Interest	4,237
Prepaid Items	11,838
Capital assets, net of depreciation	3,627,916
<i>Total Assets</i>	11,994,217
Liabilities	
Accounts Payable	471,370
Accrued Wages	1,328,910
Intergovernmental Payable	473,740
Accrued Interest Payable	13,547
Long-Term Liabilities:	
Due within one year	823,094
Due in more than one year	2,561,467
<i>Total Liabilities</i>	5,672,128
Net Assets	
Invested in capital assets, net of related debt	1,291,865
Restricted for:	
Capital Projects	265
Other Purposes	935,712
Unrestricted	4,094,247
<i>Total Net Assets</i>	\$ 6,322,089

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Activities
For the Fiscal Year Ended June 30, 2005**

	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	\$ 532,665		\$ (400,256)
Special	5,405,276	\$ 12,285,787	7,076,706
Vocational	25,813		(25,813)
Adult/Continuing	80,232		(23,481)
Support Services:			
Pupils	4,909,482		(4,033,559)
Instructional Staff	3,980,067	21,564	(1,855,068)
Board of Education	39,366		(39,366)
Administration	4,124,705		(3,886,467)
Fiscal	989,693		(962,669)
Business	133,028		(132,952)
Operation and Maintenance	959,025		(955,750)
Pupil Transportation	884,351	922,149	60,365
Central	114,016		(113,245)
Operation of Non-Instructional Services	3,965,699	28,070	(3,651,000)
Food Service Operations	114		(114)
Facilities Acquisitions and Construction Services	10,138		(10,138)
Interest and Fiscal Charges	70,277		(70,277)
<i>Totals</i>	<u>\$ 26,223,947</u>	<u>\$ 13,257,570</u>	<u>\$ 3,943,293</u>
General Revenues:			
Grants and Entitlements not Restricted to Specific Purposes			8,707,651
Unrestricted investment earnings			164,705
Gain on Sale of Assets			4,925
Miscellaneous			1,285,718
<i>Total general revenues</i>			<u>10,162,999</u>
Change in net assets			1,139,915
<i>Net assets - July 1, 2004</i>			<u>5,182,174</u>
<i>Net assets - June 30, 2005</i>			<u>\$ 6,322,089</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Balance Sheet
Governmental Funds
June 30, 2005**

	General	Auxiliary Services	Community School Operations	Miscellaneous Grants	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalent:	\$ 3,078,578	\$ 755,829	\$ 1,166,763	\$ 100,847	\$ 1,403,174	\$ 6,505,191
Receivables:						
Accounts	982,129		267,154		6,729	1,256,012
Intergovernmental				431,636	157,387	589,023
Accrued Interest	3,923	314				4,237
Prepaid Items	5,802			6,036		11,838
Total Assets	4,070,432	756,143	1,433,917	538,519	1,567,290	8,366,301
Liabilities						
Accounts Payable	293,131	604	77,234	945	99,456	471,370
Accrued Wages	867,762	316,200	40,457	9,150	95,341	1,328,910
Intergovernmental	179,640	55,132	37,420	5,319	111,381	388,892
Deferred Revenue				349,620	403,903	753,523
Total Liabilities	1,340,533	371,936	155,111	365,034	710,081	2,942,695
Fund Balances						
Reserved for Encumbrances	360,800	74,452		413,446	87,014	935,712
Reserved for Capital Projects					265	265
Unreserved , Reported in:						
General Fund	2,369,099					2,369,099
Special Revenue Funds		309,755	1,278,806	(239,961)	769,090	2,117,690
Capital Projects Funds					840	840
Total Fund Balances	2,729,899	384,207	1,278,806	173,485	857,209	5,423,606
Total Liabilities and Fund Balances	\$ 4,070,432	\$ 756,143	1,433,917	538,519	\$ 1,567,290	\$ 8,366,301

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
June 30, 2005**

Total Governmental Fund Balances \$ 5,423,606

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 3,627,916

Other long-term assets are not available to pay current period expenditures, and therefore are deferred in the funds.
Intergovernmental 753,523

Some liabilities are not due and payable in the current and therefore are not reported in the funds:

Intergovernmental Payable	\$ (84,848)	
Accrued Interest Payable	(13,547)	
Due within 1 Year - Loans Payable	(160,091)	
Due within 1 Year - Capital Leases Payable	(177,000)	
Due within 1 Year - Compensated Absences	(486,003)	
Due in More than One Year - Loans	(1,816,960)	
Due in More than One Year - Capital Leases	(182,000)	
Due in More than One Year - Compensated Absences	(562,507)	
	<u>(3,482,956)</u>	<u>(3,482,956)</u>

Net Assets of Governmental Activities \$ 6,322,089

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, 2005

	General	Auxiliary Services	Community School Operations	Miscellaneous Grants	Other Governmental Funds	Total Governmental Funds
Revenues						
Intergovernmental	\$ 8,407,652			\$ 1,754,141	\$ 1,880,039	\$ 12,041,832
Investment Income	156,108	\$ 8,597				164,705
Tuition	3,456,792				358,075	3,814,867
Food Services	4,349					4,349
Rentals	11,876					11,876
Charges for Services	81,386		\$ 76,795			158,181
Extracurricular Activities					5,255	5,255
Classroom Materials and Fees	50,630		9,800	12,809	2,930	76,169
Customer Services	2,367,632	3,258,862	2,639,107		71,132	8,336,733
Transportation Fees	30,289		811,938			842,227
Miscellaneous	780,125		20,900	25,590	327,496	1,154,111
<i>Total Revenue</i>	<u>15,346,839</u>	<u>3,267,459</u>	<u>3,558,540</u>	<u>1,792,540</u>	<u>2,644,927</u>	<u>26,610,305</u>
Expenditures						
Current:						
Instruction:						
Regular	399,615		300	4,923	121,433	526,271
Special	5,215,877				212,558	5,428,435
Vocational	27,139					27,139
Adult/Continuing				68,344	11,730	80,074
Support Services:						
Pupils	3,780,279		121,752	41,488	931,186	4,874,705
Instructional Staff	1,304,449		44,639	1,914,086	788,582	4,051,756
Board of Education	39,502					39,502
Administration	2,871,301		679,937	89,777	451,207	4,092,222
Fiscal	397,174		565,414	30,544	2,420	995,552
Business	133,751		14,892		492	149,135
Operation and Maintenance	862,236		34,601		34,103	930,940
Pupil Transportation	72,338		767,286		21,622	861,246
Central	105,532				236	105,768
Operation of Non-Instructional	186,812	3,352,259	43,472		428,691	4,011,234
Facility Acquisition and Construction Services	14,634					14,634
Building Improvement	15,063					15,063
Food Service Operations					114	114
Debt Service:						
Principal Retirement	227,675				98,840	326,515
Interest and Fiscal Charges	54,279				23,176	77,455
<i>Total Expenditures</i>	<u>15,707,656</u>	<u>3,352,259</u>	<u>2,272,293</u>	<u>2,149,162</u>	<u>3,126,390</u>	<u>26,607,760</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(360,817)</u>	<u>(84,800)</u>	<u>1,286,247</u>	<u>(356,622)</u>	<u>(481,463)</u>	<u>2,545</u>
Other Financing Sources (Uses)						
Proceeds from Sale of Fixed Assets	875			4,050		4,925
Operating Transfers In	409,000	510	3,000		91,315	503,825
Operating Transfers Out	(500,645)	(510)			(2,670)	(503,825)
<i>Total Other Sources (Uses)</i>	<u>(90,770)</u>		<u>3,000</u>	<u>4,050</u>	<u>88,645</u>	<u>4,925</u>
<i>Net Change in Fund Balance</i>	<u>(451,587)</u>	<u>(84,800)</u>	<u>1,289,247</u>	<u>(352,572)</u>	<u>(392,818)</u>	<u>7,470</u>
Fund Balances at Beginning of Year	3,181,486	469,007	(10,441)	526,057	1,250,027	5,416,136
<i>Fund Balances End of Year</i>	<u>\$ 2,729,899</u>	<u>\$ 384,207</u>	<u>\$ 1,278,806</u>	<u>\$ 173,485</u>	<u>\$ 857,209</u>	<u>\$ 5,423,606</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
For the Fiscal Year Ended June 30, 2005**

Net Change in Fund Balances -Total Governmental Funds \$ 7,470

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 outlay was over (under) depreciation in the current period.

Capital Outlays	\$ 97,329	
Depreciation Expense	(79,827)	
Total		17,502

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 753,553

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. Repayments 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

Loan Principal Payments	154,515	
Capital Lease Principal Payments	172,000	
Total		326,515

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 7,178

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 in governmental funds.

Intergovernmental	(46,777)	
Compensated Absences	74,474	
		27,697

Change in Net Assets of Governmental Activities \$ 1,139,915

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 8,308,763	\$ 8,308,761	\$ 8,438,606	\$ 129,845
Earnings on Investments	92,150	97,650	159,762	62,112
Food Services	4,162	4,162	4,349	187
Tuition	2,885,141	2,885,141	3,293,455	408,314
Classroom Material and Fees	58,150	58,147	50,630	(7,517)
Customer Services		2,591,426	2,591,426	
Transportation Fees	61,007	61,007	33,307	(27,700)
Miscellaneous Revenue	2,827,874	474,190	687,111	212,921
<i>Total Revenue</i>	<u>14,237,247</u>	<u>14,480,484</u>	<u>15,258,646</u>	<u>778,162</u>
Expenditures				
Current:				
Instruction:				
Regular	530,269	632,505	398,068	234,437
Special	5,843,736	5,639,329	5,267,835	371,494
Vocational	27,138	29,597	26,749	2,848
Support Services:				
Pupils	3,762,474	3,887,111	3,726,480	160,631
Instructional Staff	1,593,917	1,514,261	1,325,614	188,647
Board of Education	87,986	48,476	40,139	8,337
Administration	3,185,331	3,237,578	2,887,154	350,424
Fiscal	654,048	537,370	418,402	118,968
Business	318,767	234,659	168,362	66,297
Operation and Maintenance	1,479,955	1,350,705	921,710	428,995
Pupil Transportation	529,053	506,875	171,228	335,647
Central	139,128	146,474	127,169	19,305
Operation of Non-Instructional	184,913	207,735	188,623	19,112
Facilities Acquisition and Construction	220,138	126,708	34,634	92,074
Debt Service:				
Principal Retirement	217,675	220,366	227,671	(7,305)
Interest and Fiscal Charges	56,973	54,284	54,284	
<i>Total Expenditures</i>	<u>18,831,501</u>	<u>18,374,033</u>	<u>15,984,122</u>	<u>2,389,911</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(4,594,254)</u>	<u>(3,893,549)</u>	<u>(725,476)</u>	<u>3,168,073</u>

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Statement of Revenues, Expenditures, and Changes in Fund Balance
 Budget and Actual Comparison (Non-GAAP)
 General Fund
 For the Fiscal Year Ended June 30, 2005
 (Continued)

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	18,347	20,712	83,119	62,407
Proceeds from Sale of Bonds	71,613	71,613		(71,613)
Proceeds from Sale of Assets			875	875
Advances Out	(536,000)	(536,000)	(536,000)	
Advances In			536,000	536,000
Operating Transfers Out	(509,165)	(1,036,645)	(500,645)	536,000
Operating Transfers In			409,000	409,000
<i>Total Other Sources (Uses)</i>	<u>(955,205)</u>	<u>(1,480,320)</u>	<u>(7,651)</u>	<u>1,472,669</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Uses</i>	(5,549,459)	(5,373,869)	(733,127)	4,640,742
<i>Fund Balance at Beginning of Year</i>	3,128,581	3,128,581	3,128,581	
Unexpended Prior Year Encumbrances	<u>300,057</u>	<u>300,057</u>	<u>300,057</u>	
<i>Fund Balance (Deficit) at End of Year</i>	<u><u>\$ (2,120,821)</u></u>	<u><u>\$ (1,945,231)</u></u>	<u><u>\$ 2,695,511</u></u>	<u><u>\$ 4,640,742</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Auxiliary Services Fund
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Earnings on Investments			\$ 8,598	\$ 8,598
Customer Services	\$ 611,393	\$ 2,779,282	3,258,692	479,410
<i>Total Revenue</i>	<u>611,393</u>	<u>2,779,282</u>	<u>3,267,290</u>	<u>488,008</u>
Expenditures				
Current:				
Operation of Non-Instructional	3,387,960	3,599,913	3,403,757	196,156
<i>Total Expenditures</i>	<u>3,387,960</u>	<u>3,599,913</u>	<u>3,403,757</u>	<u>196,156</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(2,776,567)</u>	<u>(820,631)</u>	<u>(136,467)</u>	<u>684,164</u>
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures			169	169
Operating Transfers Out		(510)	(510)	
Operating Transfers In			510	510
<i>Total Other Sources (Uses)</i>		<u>(510)</u>	<u>169</u>	<u>679</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Uses</i>	<u>(2,776,567)</u>	<u>(821,141)</u>	<u>(136,298)</u>	<u>684,843</u>
Fund Balance at Beginning of Year	684,371	684,371	684,371	
Unexpended Prior Year Encumbrances	<u>132,710</u>	<u>132,710</u>	<u>132,710</u>	
<i>Fund Balance (Deficit) at End of Year</i>	<u><u>\$ (1,959,486)</u></u>	<u><u>\$ (4,060)</u></u>	<u><u>\$ 680,783</u></u>	<u><u>\$ 684,843</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Community School Operations Fund
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Transportation Fees	\$ 654,314	\$ 654,314	\$ 677,247	\$ 22,933
Customer Services	1,619,072	1,619,072	2,591,203	972,131
Classroom Materials and Fees	7,970	7,970	9,800	1,830
Miscellaneous Revenue			13,136	13,136
<i>Total Revenue</i>	<u>2,281,356</u>	<u>2,281,356</u>	<u>3,291,386</u>	<u>1,010,030</u>
Expenditures				
Current:				
Regular Instruction		646	300	346
Support Services:				
Pupil		119,237	105,094	14,143
Instructional Staff	3,238	54,035	43,406	10,629
Administrative	453,166	695,442	662,522	32,920
Fiscal	353,278	607,570	558,798	48,772
Business		16,371	14,892	1,479
Operation and Maintenance of Plant	18,013	48,381	36,212	12,169
Transportation	474,886	1,383,105	1,029,555	353,550
Operation of Non-Instructional	8,039	92,213	50,864	41,349
<i>Total Expenditures</i>	<u>1,310,620</u>	<u>3,017,000</u>	<u>2,501,643</u>	<u>515,357</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>970,736</u>	<u>(735,644)</u>	<u>789,743</u>	<u>1,525,387</u>
Other Financing Sources				
Operating Transfers In		3,000	3,000	
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	970,736	(732,644)	792,743	1,525,387
Fund Balance at Beginning of Year	3,703	3,703	3,703	
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 974,439</u>	<u>\$ (728,941)</u>	<u>\$ 796,446</u>	<u>\$ 1,525,387</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Miscellaneous State Grants Fund
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental Revenue	\$ 1,661,093	\$ 2,027,351	\$ 1,825,454	\$ (201,897)
Classroom Materials and Fees	16,027	16,027	12,809	(3,218)
Miscellaneous Revenue			25,590	25,590
<i>Total Revenue</i>	<u>1,677,120</u>	<u>2,043,378</u>	<u>1,863,853</u>	<u>(179,525)</u>
Expenditures				
Current:				
Regular Instruction	1,064	5,812	4,951	861
Adult/Continuing Education		70,384	60,473	9,911
Support Services:				
Pupil	13,104	59,247	49,471	9,776
Instructional Staff	1,899,312	2,186,771	1,918,784	267,987
Administrative	79,190	91,033	89,777	1,256
Fiscal	30,544	30,544	30,544	
<i>Total Expenditures</i>	<u>2,023,214</u>	<u>2,443,791</u>	<u>2,154,000</u>	<u>289,791</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(346,094)</u>	<u>(400,413)</u>	<u>(290,147)</u>	<u>110,266</u>
Other Financing Sources				
Refund of Prior Year Expenditures		2,364	4,050	1,686
<i>Excess of Revenues and Other Financing Sources Under Expenditures</i>	<u>(346,094)</u>	<u>(398,049)</u>	<u>(286,097)</u>	<u>111,952</u>
Fund Balance at Beginning of Year	386,945	386,945	386,945	
<i>Fund Balance (Deficit) at End of Year</i>	<u>\$ 40,851</u>	<u>\$ (11,104)</u>	<u>\$ 100,848</u>	<u>\$ 111,952</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 2,643,979
Account Receivable	135,369
Notes Receivable	<u>120,500</u>
<i>Total Assets</i>	<u><u>\$ 2,899,848</u></u>
Liabilities	
Accounts Payable	\$ 19,576
Accrued Wages and Benefits Payable	6,761
Intergovernmental Payable	1,027
Held and Due to Others	2,751,984
Undistributed Monies	<u>120,500</u>
<i>Total Liabilities</i>	<u><u>\$ 2,899,848</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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-one classified employees, and two hundred seventy 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, 2005, 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.

JOINT GOVERNED ORGANIZATIONS

Penta Career Center

Penta Career Center - is a jointly governed organization, established by the Ohio Revised Code (ORC) to provide vocational and special needs to students. The Penta Career Center accepts non-tuition students from the LCESC as a member school. The LCESC does not retain an ongoing financial interest or responsibility in the Penta Career Center.

Northwest Ohio Computer Association

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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

**1. DESCRIPTION OF THE EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY –
(Continued)**

Northwest Ohio Education Council

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

PUBLIC ENTITY RISK POOL

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

The NOEC is a public entity risk pool consisting of LCESC and other local school districts. NOEC was established pursuant to 9.833 of the Ohio Revised Code, in order to act as a common risk management and insurance program. NOEC is comprised of one member from each local school district and LCESC. LCESC acts as fiscal agent of NOEC, but their financial statements are not reported with LCESC 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 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 are 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 program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of LCESC.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 Fund, the Auxiliary Service Fund, the Community Schools Operations Fund, and the Miscellaneous State Grants Fund 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.

Auxiliary Service Fund

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

Community Schools Operations Fund

This fund accounts for financing, accounting and fiscal activities of community schools that LCESC employees perform.

Miscellaneous State Grants Fund

This fund accounts for financial assistance from various state agencies in the form of grants. Related disbursements are generally subject to the grant agreement.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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. Upon review by the 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.

Throughout the fiscal year, estimated resources and appropriations may be amended or supplemented as circumstances warrant. 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 expenditures 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. For the fiscal year ended June 30, 2005, LCESC did not certify all commitments required by Ohio Law.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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 2005, 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 is reported at cost or amortized cost.

LCESC has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. 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, 2005.

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 2005 amounted to \$156,108 which includes \$81,023 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, 2005, 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, 2005
(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (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 values 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>Depreciation</u>	<u>Estimated Lives</u>
Buildings and Improvements	40
Improvements Other than Buildings	15
Furniture and Equipment	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) 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 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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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.

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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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 2005.

3. 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 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).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

3. BUDGETARY BASIS OF ACCOUNTING – (Continued)

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

	Net Change in Fund Balance			
	General	Auxiliary Services	Community Schools Operations	Miscellaneous State Grants
Budget Basis	\$ (733,127)	\$ (136,298)	\$ 792,743	\$ (286,097)
Adjustments:				
Revenue Accruals:				
Accrued FY2004, Received in Cash FY2005	(980,983)	(314)		(153,329)
Accrued FY2005, Not Yet Received in Cash	1,069,177	483	267,153	431,636
Expenditure Accruals:				
Accrued FY2004, Paid in Cash FY2005	1,228,131	348,388	14,143	14,216
Accrued FY2005, Not Yet Paid in Cash	(1,334,731)	(371,936)	(155,111)	(358,998)
Encumbrances	383,065	75,046	370,319	
Other Financial Sources/Uses:				
Refunds	(83,119)	(169)		
GAAP Basis	<u>(451,587)</u>	<u>(84,800)</u>	<u>1,289,247</u>	<u>(352,572)</u>

4. 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.

Inactive Deposits: those monies not required for use within the current five-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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

4. DEPOSITS AND INVESTMENTS – (Continued)

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 States 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 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 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.

Deposits – Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of LCESC's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, all financial institutions must collateralize all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third parties of the financial institution.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS – (Continued)

Based on the criteria described in GASB Statement No. 40, *Deposit and Investment Risk Disclosure*, as of June 30, 2005, \$7,881,811 of the LCESC's bank balance of \$9,455,811 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in LCESC's name.

The LCESC has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the LCESC or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

LCESC's investments are categorized below to give an indication of the level of risk assumed by the Center 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 entry form.

As of June 30, 2005, LCESC had the following investment:

	Carrying Value	Fair Value
Not Subject to Categorization:		
STAR Ohio	\$ 725,215	\$ 725,215

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The LCESC's investment policy addresses interest rate risk by requiring that the LCESC's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments, thereby avoiding that need to sell securities on the open market prior to maturity, and by investing operating funds primarily in short-term investments.

STAR Ohio carries a rating of AAA by Standard and Poor's. LCESC has no investment policy dealing with investment credit risk beyond the requirements in state statutes. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS – (Continued)

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, LCESC will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. LCESC has no investment policy dealing with investment custodial risk beyond the requirements of ORC 135.14(M)(2) which states, "Payment for investments shall be made only upon the delivery of securities representing such investments to the treasurer, investing authority, or qualified trustee. If the securities transferred are not represented by a certificate, payment shall be made only upon receipt of confirmation of transfer from the custodian by the treasurer, governing board, or qualified trustee."

5. RECEIVABLES

Receivables at June 30, 2005, consisted of interest, accounts (billings for user charged services), intergovernmental receivables arising from grants, entitlement and shared revenues, and notes (loans made to community schools). 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	\$ 982,129
Community Schools Operations Fund	267,154
Other Governmental Funds	6,729
<i>Total Accounts Receivable</i>	1,256,012
Intergovernmental Receivable:	
Miscellaneous State Grants Fund	431,636
Other Governmental Funds	157,387
<i>Total Intergovernmental Receivable</i>	589,023
Accrued Interest Receivable:	
General Fund	3,923
Auxiliary Services Fund	314
<i>Total Accrued Interest Receivable</i>	4,237
<i>Total Governmental Activities</i>	1,849,272
Fiduciary-Type Activities	
Accounts Receivable	135,369
Notes Receivable	120,500
Total Fiduciary-Type Activities	255,869
<i>Grand Total</i>	\$2,105,141

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Balance 07/01/04	Additions	Deletions	Balance 06/30/05
Governmental Activities				
Buildings and Improvements	\$ 3,247,353	\$ -		\$ 3,247,353
Improvements Other than Buildings	81,093	12,360		93,453
Furniture, Fixtures, and Equipment	728,983	84,969		813,952
Vehicles	19,385			19,385
<i>Totals at Historical Cost</i>	<u>4,076,814</u>	<u>97,329</u>		<u>4,174,143</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(167,491)	(34,469)		(201,960)
Improvements Other than Buildings	(8,273)	(6,230)		(14,503)
Furniture, Fixtures, and Equipment	(279,082)	(37,928)		(317,010)
Vehicles	(11,554)	(1,200)		(12,754)
<i>Total Accumulated Depreciation</i>	<u>(466,400)</u>	<u>(79,827)</u>		<u>(546,227)</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 4,543,214</u>	<u>\$ 177,156</u>		<u>\$ 4,720,370</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$ 4,729
Support Service:	
Instructional Staff	46,402
Administration	14,211
Operation and Maintenance of Plant	4,347
Facilities Acquisition and Construction	<u>10,138</u>
Total Depreciation Expense	<u>\$ 79,827</u>

The following estimated useful lives are used to compute depreciation:

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

7. 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. LCESC is a member of the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC). NOEC is a public entity risk pool established pursuant to ORC 9.833 in order to provide the following coverage:

Coverage:	
Commercial Property (\$1,000 Deductible)	\$ 151,000,000
Boiler and Machinery (\$2,500 Deductible)	50,000,000
General Liability:	
Per Occurrence	1,000,000
Aggregate	3,000,000
Educator's Legal Liability (\$5,000 Deductible)	1,000,000
Auto Liability/Physical Damage (\$1,000 Deductible)	1,000,000

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

8. DEFINED BENEFIT PENSION PLANS

A. State Teachers Retirement System

The Educational Service Center 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 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 or 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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

8. DEFINED BENEFIT PENSION PLANS – (Continued)

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, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center 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.

The Educational Service Center's required contribution for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003, was \$1,443,827, \$1,444,915, and \$1,393,492, respectively; 96.7 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003.

B. School Employees Retirement System

The Educational Service Center contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan administered by the School Employees Retirement Board. SERS provides 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, 2005, plan members were required to contribute 10 percent of their annual covered salary and the Educational Service Center was required to contribute an actuarially determined rate. The rate for fiscal year 2005 was 14 percent of annual covered payroll; 10.57 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. The Educational Service Center's required contribution for pension obligations to SERS for the fiscal years ended June 30, 2005, 2004, and 2003, was \$314,522, \$218,858, and \$194,993, respectively; 66.8 percent has been contributed for fiscal year 2005 and 100 percent has been contributed for fiscal years 2004 and 2003. \$117,359 represents the unpaid contribution for fiscal year 2005. The balance outstanding is reflected as an intergovernmental payable.

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the State Teachers Retirement System or the School Employees Retirement System have an option to choose Social Security or the State Teachers Retirement System/School Employees Retirement System. As of June 30, 2005, one of the Board of Education members has 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, 2005
(Continued)**

9. POSTEMPLOYMENT BENEFITS

The Educational Service Center 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.

STRS retirees who participated in the Defined Benefit Plan or the Combined Plan and their dependents are eligible for health care coverage. The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All 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 2005, the Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Stabilization Fund. For the Educational Service Center, this amount was \$111,064.

STRS pays health care benefits from the Health Care Stabilization Fund. The balance in the Fund was \$3.3 billion at June 30, 2005. For the fiscal year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000, and STRS had 115,395 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. All members must pay a portion of their premium for health care. The portion is based on years of service, Medicare eligibility, and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50 percent for those who apply.

For the fiscal year ended June 30, 2005, employer contributions to fund health care benefits were 3.43 percent of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. For the Educational Service Center, the amount to fund health care benefits, including the surcharge, was \$304,721 for fiscal year 2005.

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, 2005, were \$178,221,113. The target level for the health care fund is 150 percent of the projected claims less premium contributions for the next fiscal year. As of June 30, 2005, the value of the health care fund was \$267.5 million, which is about 168 percent of next year's projected net health care costs of \$158,776,151. On the basis of actuarial projections, the allocated contributions will be sufficient, in the long-term, to provide for a health care reserve equal to at least 150 percent of estimated annual net claim costs. SERS has approximately 58,123 participants currently receiving health care benefits.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

10. LONG-TERM LIABILITIES

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

	Principal Outstanding at 6/30/04	Additions	Reductions	Principal Outstanding at 6/30/05	Amounts Due In One Year
Government Activities					
Sky Bank Loan					
Shuer Center					
3.17%, Issued 5/5/03					
Matures June 5, 2023	\$ 893,868	\$ -	\$ 34,787	\$ 859,081	\$ 35,914
Sky Bank Loan					
Challenger Center					
3.70%, Issued 1/22/03					
Matures July 22, 2010	662,698		98,840	563,858	102,612
Sky Bank Loan					
Shuer/Challenger Centers					
3.17%, Issued 5/5/03					
Matures June 1, 2024	575,000		20,888	554,112	21,565
Compensated Absences	1,122,984		74,474	1,048,510	486,003
Capital Lease Payable	531,000		172,000	359,000	177,000
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$ 3,785,550</u>	<u>\$ -</u>	<u>\$ 400,989</u>	<u>\$ 3,384,561</u>	<u>\$ 823,094</u>

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

Capital Leases Payable represents the five and ten-year OASBO lease agreements taken out by LCESC in fiscal year 2003 to finance the purchase of the Collingwood and Shuer Centers.

Compensated absences will be paid from the fund from which the employees' salaries are paid.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

10. LONG-TERM LIABILITIES – (Continued)

Principal and Interest requirement to retire LCESC's General Obligation loans outstanding at June 30, 2005, were as follows:

Year Ending June 30	Sky Bank Loan Liability
2006	\$ 224,459
2007	223,961
2008	223,960
2009	223,960
2010	223,659
2011-2015	519,893
2016-2020	509,722
2021-2024	344,840
Total Minimum Loan Payments	2,494,454
Less: Amount Representing Interest	(517,403)
Present Value of Future Minimum Loan Payment	\$ 1,977,051

11. CAPITALIZED LEASES - LESSEE DISCLOSURE

LCESC has entered into a five-year capitalized lease for the purchase of 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.

The following is a schedule of Future Minimum Lease Payments at June 30, 2005:

Year Ending June 30	Capital Lease Liability
2006	188,084
2007	187,951
Total Minimum Lease Payments	376,035
Less: Amount Representing Interest	(17,035)
Present Value of Future Minimum Lease Payment	\$ 359,000

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

12. JOINTLY GOVERNED ORGANIZATIONS

A. Penta Career Center

The Penta Career Center (PCC) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The PCC is operated under the direction of a Board consisting of eleven members, each appointed for a term of two years, to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Centers, one 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 Centers and one from the Perrysburg Exempted Village School District. LCESC's payments to JVS for the period ended June 30, 2004, totaled \$2,967. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the PCC, 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.

NWOCA is an association of thirty-seven educational entities, primarily school districts, located in Defiance, Fulton, Henry, Lucas, Williams and Wood Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among members. NWOCA is governed by its participating members, which consists of a representative from each member entity.

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

C. Northwest Ohio Educational Council Self-Insurance Pool Program

The District participates in the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program) which is an insurance purchasing pool. The NOEC Program is created and organized pursuant to and as authorized by § 2744.081 of the Ohio Revised Code. The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The NOEC Program is a non-profit organization to its members and an instrumentality for each member for the purpose of enabling members of the NOEC Program to provide for a formalized, joint insurance program to maintain adequate insurance protection, risk management programs, and other administrative services. The NOEC Program's business and affairs are conducted by a nine member Insurance Committee created by the governing board of the NWOEC. The NOEC Program has an agreement with Marsh USA for administrative services and Cambridge Integrated Services, Inc. for claims processing. The District paid \$44,491 for these services to NOEC in fiscal year 2004. To obtain financial information write to Frank McKain, MARCH USA, One Seagate Center, Suite 1860, Toledo, Ohio 43604.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

13. 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, 2005.

B. Litigation

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
School Breakfast Program	048199-05PU-2005	10.550	\$ 2,667	\$ 2,667
National School Lunch Program	048199-LLP4-2005	10.555	9,436	9,436
Total Child Nutrition Cluster			12,103	12,103
Child and Adult Care Food Program	048199-CCMO-2005 048199-LUCP-2005	10.558	2,615 66	2,615 66
Total CFDA 10.558			2,681	2,681
Total U.S. Department of Agriculture			14,784	14,784
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
<u>Special Education Cluster:</u>				
Special Education Grants to States (IDEA Part B)	048199-6BEC-2005 048199-6BPB-2005 048199-6BSD-2005	84.027	12,740 21,579 47,920 15,000	23,536 48,404 18,765
Total CFDA 84.027			97,239	90,705
Special Education - Preschool Grant (IDEA, Part B)	048199-PGS1-2004 048199-PGS1-2005	84.173	11,654 92,349	9,964 89,938
Total CFDA 84.173			104,003	99,902
<i>Total Special Education Cluster</i>			201,242	190,607
Safe and Drug -Free Schools and Communities National Programs (Title IV, Part A)	048199-T4S1-2004	84.184	(837) 474	(314)
<i>Total CFDA 84.184</i>			(363)	(314)
Safe and Drug-Free Schools and Communities National Programs	048199-DRS2-2002 048199-DRS2-2004 048199-DRS2-2005	84.186	(59,810) (21,527) 162,351	23,501 168,338
<i>Total CFDA 84.186</i>			81,014	191,839
Twenty-First Century Community Learning Centers (Title IV, Part B)	048199-T1S1-2004 048199-T1S1-2005	84.287	82,151 318,311	38,005 321,260
<i>Total CFDA 84.287</i>			400,462	359,265
Improving Teacher Quality State Grants (Title II, Part A)	048199-TRSA-2004 048199-TRSA-2005	84.367	18,075 135,331	(9,026) 157,332
<i>Total CFDA 84.367</i>			153,406	148,306
Goals 2000 - State and Local Education Systemic				

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2005
(Continued)**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Total U.S. Department of Education			835,710	889,703
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Lucas County Department of Management and Budget:</i>				
WIA Youth Activities		17.259	11,240 662,520	51,527 483,868 157
Total U.S. Department of Labor			673,760	535,552
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America School and Community Based Program	048199-SVS1-2004 048199-SVS1-2005	94.004	11,316 15,000	14,130
Total Corporation for National and Community Service			26,316	14,130
U.S. DEPARTMENT OF TRANSPORTATION				
State and Community Highway Safety	2004SAN/1 2005SAN/1	20.600	16,998 26,503	10,608 36,730
Total U.S. Department of Transportation			43,501	47,338
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of MRDD:</i>				
Medical Assistance Program (CAFS) State Children's Insurance Program		93.778 93.767	232,995 13,639	232,995 13,639
Total U.S. Department of Health and Human Services			246,634	246,634
TOTAL FEDERAL AWARDS EXPENDITURES			\$ 1,840,705	\$ 1,748,141

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (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.



**Auditor of State
Betty Montgomery**

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

Lucas County Educational Service Center
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, 2005, which collectively comprise LCESC's basic financial statements, and have issued our report thereon dated May 16, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered LCESC's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to LCESC's management dated May 16, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether LCESC's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance that we must report under *Government Auditing Standard* which is described in the accompanying schedule of findings as item 2005-001.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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

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

Betty Montgomery
Auditor of State

May 16, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON 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 apply to each of its major federal programs for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies LCESC's major federal programs. LCESC's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about LCESC's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on LCESC's compliance with those requirements.

In our opinion, LCESC complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

LCESC's management 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 directly and materially affect a major federal program 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.

One Government Center / Room 1420 / Toledo, OH 43604-2246
Telephone: (419) 245-2811 (800) 443-9276 Fax: (419) 245-2484
www.auditor.state.oh.us

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 reportable 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 caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

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

Betty Montgomery
Auditor of State

May 16, 2006

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF FINDINGS
 OMB CIRCULAR A -133 § .505
 JUNE 30, 2005

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Workforce Investment Act (WIA) CFDA # 17.259 Twenty-First Century Community Learning Centers CFDA # 84.287
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

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

FINDING NUMBER 2005-001

Material Noncompliance

Ohio Revised Code § 5705.41(D) (1) states that no subdivision shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision. 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. Every such contract made without such a certificate shall be void and no warrant shall be issued in payment of any amount due thereon.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

Then and Now Certificate: If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the LCESC can authorize the drawing of a warrant for payment of the amount due. The LCESC has thirty days from the receipt of the "then and now" certificate to approve payment by resolution or ordinance.

Amounts of less than \$3,000 may be paid by the fiscal officer without such affirmation of the taxing authority upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

Blanket Certificate: Fiscal Officers may prepare "blanket" certificates not exceeding amounts (appropriations) as approved by the Board via Ordinance or Resolution, or running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

Super Blanket Certificate: The LCESC may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

For forty-eight percent of the transactions tested, prior certification was not obtained and there was no evidence LCESC followed the aforementioned exceptions. Certification is not only required by Ohio law but is a key control in the disbursement process to assure that purchase commitments receive prior approval, and to help reduce the possibility of LCESC funds being over expended or exceeding budgetary spending limitations as set by LCESC.

To improve controls over disbursements and to help reduce the possibility of LCESC's funds exceeding budgetary spending limitations, we recommend the fiscal officer certification be obtained prior to making purchase commitments. When prior certification is not possible, "Then and Now" certificates should be utilized.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None.

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

SCHEDULE OF PRIOR AUDIT FINDINGS
 OMB CIRCULAR A -133 § .315 (b)
 JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2004-001	Material Weakness over Capital Assets	No	Partially corrected. Reported in Management Letter.



**Auditor of State
Betty Montgomery**

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LUCAS COUNTY EDUCATIONAL SERVICE CENTER

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 22, 2006**