



**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 Fiduciary Net Assets - Fiduciary Fund	18
Notes to the Basic Financial Statements	19
Schedule of Federal Award Expenditures	39
Notes to the Schedule of Federal Awards Expenditures.....	41
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	43
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	45
Schedule of Findings.....	47
Status of Prior Audit Findings.....	49

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Lucas County Educational Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center (LCESC), as of and for the year ended June 30, 2004, 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lucas County Educational Service Center, Lucas County, Ohio, as of June 30, 2004, and the respective changes in financial position, thereof and the respective budgetary comparison for the General and Auxiliary Service Fund 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 5, 2005, on our consideration of LCESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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.

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

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 5, 2005

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis For the Fiscal Year Ended June 30, 2004

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, 2004. The intent of this discussion and analysis is to look at LCESC's financial performance as a whole; readers should also review the transmittal letter, notes to the basic financial statements and financial statements to enhance their understanding of LCESC's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- Total Net Assets were \$5,182,174
- Total Revenue was \$24,524,643
- Total Expenses were \$26,801,787
- Changes in Net Assets were (\$436,383)
- Capital Assets, net of Depreciation, increased to \$3,610,414 from \$2,617,195.

Using this Annual Financial Report

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

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

REPORTING LCESC AS A WHOLE

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the LCESC to provide programs and activities, the view of the LCESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" 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.

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

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

REPORTING LCESC'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

LCESC as a Whole

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

Table 1 provides a summary of LCESC's net assets for 2004 compared to 2003.

Table 1 Net Assets Governmental Activities		
	2004	2003
Assets		
Current and Other Assets	\$ 7,286,054	\$ 8,367,695
Capital Assets	3,610,414	2,617,195
<i>Total Assets</i>	10,896,468	10,984,890
 Liabilities		
Long-term Liabilities	3,785,550	3,620,283
Other Liabilities	1,928,744	1,746,050
<i>Total Liabilities</i>	5,714,294	5,366,333

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)

Table 1 (Continued)
Net Assets
Governmental Activities

	2004	2003
Net Assets		
Invested in Capital Assets, Net of Debt	947,848	51,195
Restricted	866,377	2,092,171
Unrestricted (Deficit)	3,367,949	3,475,191
<i>Total Net Assets</i>	<u>\$ 5,182,174</u>	<u>\$ 5,618,557</u>

Total assets decrease \$88,422. Equity in pooled cash and cash equivalents decreased \$1,473,676. Capital Assets increased \$993,219.

Table 2 shows the changes in net assets for fiscal year 2004 compared to 2003.

Table 2
Changes in Net Assets for Governmental Activities

	2004	2003
Revenue		
Program Revenues:		
Charges for Services	\$ 10,965,458	\$ 10,891,290
Operating Grants	3,745,375	4,478,778
General Revenue:		
Grants and Entitlements	8,576,442	8,119,144
Other	1,151,752	355,412
<i>Total Revenues</i>	<u>24,439,027</u>	<u>23,844,624</u>
Program Expenses		
Instruction	6,660,833	7,382,275
Support Services:		
Pupil and Instructional Staff	8,940,765	7,299,976
Board of Education, Administration, Fiscal and Business	3,812,018	3,374,874
Operations and Maintenance of Plant	942,943	866,440
Pupil Transportation	581,670	488,821
Central	179,412	174,226
Non-Instructional Services	3,581,734	3,296,709
Other	-	973,614
Facilities Acquisition and Construction Services	63,815	-
Intergovernmental	-	2,030
Interest and Fiscal Charges	112,220	94,150
<i>Total Expenses</i>	<u>24,875,410</u>	<u>23,953,115</u>
<i>(Decrease) in Net Assets</i>	<u>\$ (436,383)</u>	<u>\$ (108,491)</u>

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2004
(Continued)**

Governmental Activities

Instruction comprises 26.8 percent of governmental program expenses. Interest expense was \$112,220, 0.5 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

	2004		2003	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,660,833	\$ 3,976,216	\$ 7,382,275	\$ 2,720,747
Support Services:				
Pupil and Instructional Staff	8,940,765	(5,897,436)	7,299,976	(3,114,555)
Board of Education, Administration				
Fiscal and Business	3,812,018	(3,597,679)	3,374,874	(3,239,887)
Operation and Maintenance	942,943	(917,873)	866,440	(858,950)
Pupil Transportation	581,670	(74,623)	488,821	91,899
Central	179,412	(166,895)	174,226	(172,048)
Operation of Non-Instructional Services	3,581,734	(3,343,236)	3,296,709	(3,256,559)
Other	-	-	973,614	(657,514)
Facilities Acquisition and Construction Services	63,815	(30,831)	-	-
Intergovernmental	-	-	2,030	(2,030)
Interest and Fiscal Charges	112,220	(112,220)	94,150	(94,150)
<i>Total Expenses</i>	<u>\$ 24,875,410</u>	<u>\$ (10,164,577)</u>	<u>\$ 23,953,115</u>	<u>\$ (8,583,047)</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 39.8 percent of total revenue. State foundation revenue, as a whole, is by far the primary support for LCESC.

LCESC's Funds

Information about LCESC's major funds is on pages 23-24. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$24,462,209 and expenditures of \$26,801,787. The net change in General Fund balance for the year was a decline of \$179,270. 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, 2004 (Continued)

General Fund Budgeting Highlights

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

During the course of fiscal year 2004, LCESC amended its general fund budget numerous times, none significant. LCESC uses site-based budgeting and the budgeting systems are designed to tightly control total site budgets but provide flexibility for site management.

For the General Fund, budget basis revenue (actual) was \$16,491,047, which is concurrent with the original budget estimates of \$15,934,062.

Much of this estimate was offset as the original appropriations of \$16,898,300 were increased to \$21,820,708, with the largest increase, \$1,745,000 for special education instruction.

LCESC's ending unobligated cash balance was \$4,291,322 above the final budgeted amount.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2004, LCESC had \$4,076,814 invested in buildings, improvements, equipment, and vehicles. Table 4 shows fiscal 2004 balances compared to 2003:

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

	<u>2004</u>	<u>2003</u>
Buildings and Improvements	\$ 3,079,862	\$ 2,190,706
Improvements Other than Buildings	72,820	32,326
Furniture, Fixtures, and Equipment	449,901	385,132
Vehicles	7,831	9,031
<i>Totals</i>	<u>\$ 3,610,414</u>	<u>\$ 2,617,195</u>

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

Debt

At June 30, 2004, LCESC had \$2,662,566 in capital leases and Sky Bank loans outstanding, \$841,626 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, 2004
(Continued)**

Table 5
Outstanding Debt, at Year End
Governmental Activities

	2004	2003
Sky Bank Loan	\$ 662,698	\$ 750,000
Sky Bank Loan	575,000	925,000
Sky Bank Loan	893,868	30,000
Capital Leases	531,000	861,000
<i>Total Outstanding Debt, at Year End</i>	<u>\$ 2,662,566</u>	<u>\$ 2,566,000</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. Or e-mail at lc_rac@nwoca.org.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Net Assets
June 30, 2004**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 5,907,318
Receivables:	
Accounts	978,146
Intergovernmental	380,861
Accrued Interest	7,891
Prepaid Items	11,838
Capital assets, net of depreciation	3,610,414
<i>Total Assets</i>	10,896,468
 Liabilities	
Accounts Payable	394,599
Accrued Wages	1,172,409
Intergovernmental Payable	341,011
Accrued Interest Payable	20,725
Long-Term Liabilities:	
Due within one year	841,626
Due in more than one year	2,943,924
<i>Total Liabilities</i>	5,714,294
 Net Assets	
Invested in capital assets, net of related debt	947,848
Restricted for:	
Capital Projects	44,667
Other Purposes	821,710
Unrestricted	3,367,949
<i>Total Net Assets</i>	\$ 5,182,174

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Statement of Activities
For the Fiscal Year Ended June 30, 2004**

	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	\$ 384,263	\$ -	\$ 106,733	\$ (277,530)
Special	6,185,858	10,370,949	158,551	4,343,642
Vocational	79,567	-	1	(79,566)
Adult/Continuing	11,145	-	815	(10,330)
Support Services:				
Pupils	4,030,149	84,030	782,912	(3,163,207)
Instructional Staff	4,910,616	-	2,176,387	(2,734,229)
Board of Education	39,801	-	-	(39,801)
Administration	2,783,492	-	202,717	(2,580,775)
Fiscal	769,737	-	10,957	(758,780)
Business	218,988	-	665	(218,323)
Operation and Maintenance	942,943	-	25,070	(917,873)
Pupil Transportation	581,670	498,913	8,134	(74,623)
Central	179,412	-	12,517	(166,895)
Operation of Non-Instructional Services	3,581,734	11,566	226,932	(3,343,236)
Facilities Acquisitions and Construction Services	63,815	-	32,984	(30,831)
Interest and Fiscal Charges	112,220	-	-	(112,220)
<i>Total governmental activities</i>	<u>24,875,410</u>	<u>10,965,458</u>	<u>3,745,375</u>	<u>(10,164,577)</u>
<i>Totals</i>	<u>\$ 24,875,410</u>	<u>\$ 10,965,458</u>	<u>\$ 3,745,375</u>	<u>(10,164,577)</u>

General Revenues:

Grants and Entitlements not Restricted to Specific Purposes	8,576,442
Unrestricted investment earnings	96,379
Miscellaneous	1,055,373
<i>Total general revenues</i>	<u>9,728,194</u>
Change in net assets	(436,383)
<i>Net assets - July 1, 2003</i>	<u>5,618,557</u>
<i>Net assets - June 30, 2004</i>	<u>\$ 5,182,174</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Balance Sheet
Governmental Funds
June 30, 2004**

	General	Auxiliary Services	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	\$ 3,428,639	\$ 817,081	\$ 1,661,598	\$ 5,907,318
Receivables:				
Accounts	942,447	-	35,699	978,146
Intergovernmental	30,954	-	349,907	380,861
Accrued Interest	7,577	314	-	7,891
Prepaid Items	5,802	-	6,036	11,838
<i>Total Assets</i>	<u>4,415,419</u>	<u>817,395</u>	<u>2,053,240</u>	<u>7,286,054</u>
Liabilities				
Accounts Payable	280,358	593	113,648	394,599
Accrued Wages	802,661	296,942	72,806	1,172,409
Intergovernmental	150,914	50,853	101,173	302,940
<i>Total Liabilities</i>	<u>1,233,933</u>	<u>348,388</u>	<u>287,627</u>	<u>1,869,948</u>
Fund Balances				
Reserved for Encumbrances	277,793	132,116	411,801	821,710
Unreserved , Reported in:				
General Fund	2,903,693	-	-	2,903,693
Special Revenue Funds	-	336,891	1,329,783	1,666,674
Capital Projects Funds	-	-	24,029	24,029
<i>Total Fund Balances</i>	<u>3,181,486</u>	<u>469,007</u>	<u>1,765,613</u>	<u>5,416,106</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 4,415,419</u>	<u>\$ 817,395</u>	<u>\$ 2,053,240</u>	<u>\$ 7,286,054</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2004**

Total Governmental Fund Balances \$ 5,416,106

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. 3,610,414

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

Intergovernmental Payable	(38,071)	
Accrued Interest Payable	(20,725)	
Due within 1 Year - Loans Payable	(154,515)	
Due within 1 Year - Capital Leases Payable	(172,000)	
Due within 1 Year - Compensated Absences	(515,111)	
Due in More than One Year - Loans	(1,977,051)	
Due in More than One Year - Capital Leases	(359,000)	
Due in More than One Year - Compensated Absences	(607,873)	
	<u> </u>	<u>(3,844,346)</u>

Net Assets of Governmental Activities \$ 5,182,174

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, 2004**

	General	Auxiliary Services	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 8,576,442	\$ -	\$ 3,745,375	\$ 12,321,817
Investment Income	91,873	4,506	-	96,379
Tuition	2,934,647	-	213,035	3,147,682
Extracurricular Activities	5,400	-	6,166	11,566
Classroom Materials and Fees	59,658	-	30,894	90,552
Customer Services	4,131,612	3,114,837	84,030	7,330,479
Transportation Fees	498,913	-	-	498,913
Miscellaneous	581,087	1,146	382,588	964,821
<i>Total Revenue</i>	<u>16,879,632</u>	<u>3,120,489</u>	<u>4,462,088</u>	<u>24,462,209</u>
Expenditures				
Current:				
Instruction:				
Regular	266,014	-	119,036	385,050
Special	6,037,106	-	175,359	6,212,465
Vocational	77,914	-	18	77,932
Adult/Continuing	-	-	10,991	10,991
Support Services:				
Pupils	2,906,203	-	1,115,882	4,022,085
Instructional Staff	2,201,864	593	2,744,500	4,946,957
Board of Education	39,813	-	-	39,813
Administration	2,251,310	-	525,088	2,776,398
Fiscal	726,793	-	27,205	753,998
Business	213,240	-	8,970	222,210
Operation and Maintenance	923,665	-	36,708	960,373
Pupil Transportation	569,347	-	13,120	582,467
Central	163,661	-	17,566	181,227
Operation of Non-Instructional	175,827	3,148,569	264,676	3,589,072
Facility Acquisition and Construction Services	524,924	-	444,896	969,820
Debt Service:				
Principal Retirement	892,132	-	87,302	979,434
Interest and Fiscal Charges	65,089	-	26,406	91,495
<i>Total Expenditures</i>	<u>18,034,902</u>	<u>3,149,162</u>	<u>5,617,723</u>	<u>26,801,787</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,155,270)</u>	<u>(28,673)</u>	<u>(1,155,635)</u>	<u>(2,339,578)</u>
Other Financing Sources (Uses)				
Proceeds of Loans	545,000	-	-	545,000
Inception of Capital Lease	531,000	-	-	531,000
Operating Transfers In	174,300	5,317	101,026	280,643
Operating Transfers Out	(274,300)	(5,317)	(1,026)	(280,643)
<i>Total Other Sources (Uses)</i>	<u>976,000</u>	<u>-</u>	<u>100,000</u>	<u>1,076,000</u>
<i>Net Change in Fund Balance</i>	<u>(179,270)</u>	<u>(28,673)</u>	<u>(1,055,635)</u>	<u>(1,263,578)</u>
Fund Balances at Beginning of Year	3,360,756	497,680	2,821,247	6,679,683
<i>Fund Balances End of Year</i>	<u>\$ 3,181,486</u>	<u>\$ 469,007</u>	<u>\$ 1,765,612</u>	<u>\$ 5,416,105</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, 2004**

Net Change in Fund Balances -Total Governmental Funds \$ (1,263,578)

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

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

Capital Outlays	1,063,725	
Depreciation Expense	(70,506)	
Total	993,219	993,219

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (23,182)

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 Proceeds	(545,000)	
Inception of Capital Lease	(531,000)	
Loan Principal Payments	118,434	
Capital Lease Principal Payments	861,000	
Total	(96,566)	(96,566)

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. (20,725)

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	43,150	
Compensated Absences	(68,701)	
	(25,551)	(25,551)

Change in Net Assets of Governmental Activities \$ (436,383)

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, 2004**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 8,560,933	\$ 8,497,683	\$ 8,545,488	\$ 47,805
Earnings on Investments	85,509	84,877	92,150	7,273
Food Services	5,082	5,044	5,400	356
Tuition	2,718,936	2,698,848	2,885,141	186,293
Classroom Material and Fees	60,072	59,628	59,658	30
Transportation Fees	495,121	491,463	517,977	26,514
Miscellaneous Revenue	4,008,409	3,978,794	4,385,233	406,439
<i>Total Revenue</i>	<u>15,934,062</u>	<u>15,816,337</u>	<u>16,491,047</u>	<u>674,710</u>
Expenditures				
Current:				
Instruction:				
Regular	456,977	588,699	264,834	323,865
Special	6,056,274	7,801,974	5,987,550	1,814,424
Vocational	65,399	84,250	77,564	6,686
Support Services:				
Pupils	2,290,344	2,950,528	2,795,331	155,197
Instructional Staff	1,877,291	2,418,414	2,221,188	197,226
Board of Education	32,836	42,301	38,723	3,578
Administration	2,085,283	2,686,359	2,259,879	426,480
Fiscal	595,803	767,541	745,635	21,906
Business	220,188	283,657	245,822	37,835
Operation and Maintenance	922,883	1,188,901	1,033,900	155,001
Pupil Transportation	622,596	853,587	647,322	206,265
Central	156,679	201,841	158,096	43,745
Operation of Non-Instructional	155,156	199,879	159,124	40,755
Capital Outlay	636,021	819,352	694,672	124,680
Debt Service:				
Principal Retirement	724,570	933,425	892,132	41,293
Interest and Fiscal Charges	-	-	65,089	(65,089)
<i>Total Expenditures</i>	<u>16,898,300</u>	<u>21,820,708</u>	<u>18,286,861</u>	<u>3,533,847</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(964,238)</u>	<u>(6,004,371)</u>	<u>(1,795,814)</u>	<u>4,208,557</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, 2004
 (Continued)

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Other Financing Sources (Uses)				
Refund of Prior Year Expenditures	23,745	23,570	23,484	(86)
Inception of Lease	526,591	522,700	531,000	8,300
Proceeds of Notes	549,057	545,000	545,000	-
Operating Transfers Out	(270,950)	(349,051)	(274,300)	74,751
Operating Transfers In	175,799	174,500	174,300	(200)
<i>Total Other Sources (Uses)</i>	<u>1,004,242</u>	<u>916,719</u>	<u>999,484</u>	<u>82,765</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses</i>	40,004	(5,087,652)	(796,330)	4,291,322
<i>Fund Balances (Deficit) at Beginning of Year</i>	3,128,194	3,128,194	3,128,194	-
Unexpended Prior Year Encumbrances	<u>796,717</u>	<u>796,717</u>	<u>796,717</u>	-
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 3,964,915</u>	<u>\$ (1,162,741)</u>	<u>\$ 3,128,581</u>	<u>\$ 4,291,322</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 Fund
For the Fiscal Year Ended June 30, 2004**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Earnings on Investments	\$ -	\$ -	\$ 4,506	\$ 4,506
Customer Services	3,436,002	3,662,544	3,130,269	(532,275)
<i>Total Revenue</i>	<u>3,436,002</u>	<u>3,662,544</u>	<u>3,134,775</u>	<u>(527,769)</u>
Expenditures				
Current:				
Operation of Non-Instructional	3,436,002	3,610,292	3,264,982	345,310
<i>Total Expenditures</i>	<u>3,436,002</u>	<u>3,610,292</u>	<u>3,264,982</u>	<u>345,310</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>-</u>	<u>52,252</u>	<u>(130,207)</u>	<u>(182,459)</u>
Other Financing Sources (Uses)				
Operating Transfers Out	-	(5,317)	(5,317)	-
Operating Transfers In	-	5,317	5,317	-
<i>Total Other Sources (Uses)</i>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses</i>	<u>-</u>	<u>52,252</u>	<u>(130,207)</u>	<u>(182,459)</u>
Fund Balances (Deficit) at Beginning of Year	642,130	642,130	642,130	-
Unexpended Prior Year Encumbrances	172,448	172,448	172,448	-
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 814,578</u>	<u>\$ 866,830</u>	<u>\$ 684,371</u>	<u>\$ (182,459)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 1,971,908
Account Receivable	<u>103,384</u>
<i>Total Assets</i>	<u><u>\$ 2,075,292</u></u>
Liabilities	
Accounts Payable	\$ 35,904
Accrued Wages and Benefits Payable	5,346
Intergovernmental Payable	823
Held and Due to Others	<u>2,033,219</u>
<i>Total Liabilities</i>	<u><u>\$ 2,075,292</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, 2004

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 twenty-seven classified employees, and three hundred 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, 2004, 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 County Joint Vocational School

Penta County Joint Vocational School (Penta County JVS) - The Penta County JVS is a jointly governed organization, established by the Ohio Revised Code (ORC) to provide vocational and special needs to students. The Penta County JVS 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 County JVS.

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.

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-

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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.

Information about these organizations is presented in Note 12 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of LCESC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. LCESC does not have any business-type funds. Following are the more significant of LCESC's accounting policies.

A. Basis of Presentation

Government-wide Financial Statements

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

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

Fund Financial Statements

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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 and Auxiliary Service Funds are LCESC's only major funds:

General Fund

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

Auxiliary Service Fund

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

The other governmental funds of LCESC account for grants and other resources, and capital project 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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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.

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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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.

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 2004, investments were limited to nonnegotiable certificates of deposit, repurchase agreements, and STAR Ohio. Certificates of deposit and repurchase agreements are reported at cost.

LCESC has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2004. 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, 2004.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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 2004 amounted to \$89,727 which includes \$37,947 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, 2004, 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.

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	8-10
Vehicles	5

I. Compensated Absences

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

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for vacation leave is

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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.

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.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

M. Interfund Transactions

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

N. Estimates

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

O. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of LCESC and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2004.

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).

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Net Change in Fund Balance	
	General	Auxiliary Services
Budget Basis	\$ (796,330)	\$ (130,207)
Adjustments:		
Revenue Accruals:		
Accrued FY2003, Received in Cash FY2004	(614,621)	(14,598)
Accrued FY2004, Not Yet Received in Cash	1,004,463	312
Expenditure Accruals:		
Accrued FY2003, Paid in Cash FY2004	1,178,776	331,498
Accrued FY2004, Not Yet Paid in Cash	(1,228,132)	(348,388)
Encumbrances	300,058	132,710
Other Financial Sources/Uses:		
Refunds	(23,484)	-
GAAP Basis	\$ (179,270)	\$ (28,673)

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 two-year period of designation of depositories. Ohio law permits inactive monies to be deposited or invested as certificates of deposit maturing not later than the end of the current period of designation of depositories, or as savings or deposit accounts, including, but not limited to passbook accounts.

Interim Deposits: those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories.

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

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions mentioned in section 135.03 of the Revised Code;
6. The State Treasurer's Investment pool;

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of LCESC, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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

Deposits

At fiscal year end, the carrying amount of LCESC's deposits was \$4,263,281 and the bank balance was \$5,946,895. Of the bank balance, \$1,081,000 was covered by federal depository insurance, and the remainder is secured by the depository's collateral pool.

Investments

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Carrying Value	Fair Value
Category 2:		
Repurchase Agreements	\$ 1,223,198	\$ 1,223,198
Not Subject to Categorization:		
STAR Ohio	2,392,747	2,392,747
<i>Total Investments</i>	\$ 3,615,945	\$ 3,615,945

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement 9	\$7,879,226	\$ -
STAR Ohio	(2,392,747)	2,392,747
Repurchase Agreements	(1,223,198)	1,223,198
GASB Statement 3	\$4,263,281	\$3,615,945

5. RECEIVABLES

Receivables at June 30, 2004, consisted of interest, accounts (billings for user charged services), and intergovernmental receivables arising from grants, entitlement and shared revenues. All receivables are considered collectable in full. A summary of the principal items of receivables follows:

Receivables	Amount
Governmental Activities Type	
Accounts Receivable:	
General Fund	\$ 942,447
Other Governmental Funds	35,699
<i>Total Accounts Receivable</i>	978,146
Intergovernmental Receivable:	
General Fund	30,954
Other Governmental Funds	349,907
<i>Total Intergovernmental Receivable</i>	380,861
Accrued Interest Receivable:	
General Fund	7,577
Auxiliary Services Fund	314
<i>Total Accrued Interest Receivable</i>	7,891
<i>Total Governmental Activities</i>	1,366,898
Fiduciary-Type Activities	
Accounts Receivable:	103,384
<i>Grand Total</i>	\$1,470,282

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

6. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance 07/01/03	Additions	Deletions	Balance 06/30/04
Governmental Activities				
Buildings and Improvements	\$ 2,323,728	\$ 923,625	\$ -	\$ 3,247,353
Improvements Other than Buildings	35,193	45,900	-	81,093
Furniture, Fixtures, and Equipment	634,783	94,200	-	728,983
Vehicles	19,385	-	-	19,385
<i>Totals at Historical Cost</i>	<u>3,013,089</u>	<u>1,063,725</u>	<u>-</u>	<u>4,076,814</u>
Less Accumulated Depreciation:				
Buildings and Improvements	133,022	34,469	-	167,491
Improvements Other than Buildings	2,867	5,406	-	8,273
Furniture, Fixtures, and Equipment	249,651	29,431	-	279,082
Vehicles	10,354	1,200	-	11,554
<i>Total Accumulated Depreciation</i>	<u>395,894</u>	<u>70,506</u>	<u>-</u>	<u>466,400</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 2,617,195</u>	<u>\$ 993,219</u>	<u>\$ -</u>	<u>\$ 3,610,414</u>

* Depreciation expense was charged to governmental functions as follows:

Instruction:	
Special	\$ 58
Support Service:	
Pupil	199
Instructional Staff	3,578
Administration	750
Fiscal	251
Business	653
Operation and Maintenance of Plant	597
Central	106
Operation of Non-Instructional Services	62,685
Facilities Acquisition and Construction	<u>1,629</u>
Total Depreciation Expense	<u>\$ 70,506</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	8-10
Vehicles	5

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (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 Employees Retirement Systems (SERS)

The LCESC contributes to the School Employees Retirement System (SERS), a cost-sharing multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614) 222-5853.

For the fiscal year ended June 30, 2004, plan members are required to contribute 10 percent of their annual covered salary and the LCESC is required to contribute at an actuarially determined rate. The current School rate is 14 percent of annual covered payroll. A portion of the LCESC's contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for fiscal year 2004, 9.09 percent of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The LCESC's required contributions for pension obligations to SERS for the fiscal years ended June 30, 2004, 2003, and 2002 were \$218,858, \$194,993 and \$121,092, respectively; 59.5 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003. \$136,577 represents the unpaid contribution for fiscal year 2004. The balance outstanding is reflected as an intergovernmental payable.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

B. State Teachers Retirement System of Ohio

The LCESC participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement system. STRS Ohio provides retirement and disability benefits to members and death and survivor benefits to beneficiaries. STRS Ohio issues a stand-alone financial report that may be obtained by writing to STRS Ohio, 275 E. Broad St., Columbus, OH 43215-3371 or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan, and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5 percent of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. 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 balances from the existing DB Plan into the DC Plan or the Combined Plan. This option expired on December 31, 2001. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member 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, 2004, plan members were required to contribute 10 percent of their annual covered salaries. The LCESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10 percent for members and 14 percent for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employer contributions.

The LCESC's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2004, 2003, and 2002 were \$1,444,915, \$1,393,492 and \$963,404, respectively; 99.3 percent has been contributed for fiscal year 2004 and 100 percent for fiscal year 2003

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by the School Employees Retirement System or the State Teachers Retirement System have an option to choose Social Security or the School Employees Retirement System/State Teachers Retirement System. As

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

of June 30, 2000 four members of the Board of Education have elected Social Security. The Board's liability is 6.2 percent of wages paid.

9. POSTEMPLOYMENT BENEFITS

The LCESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System of Ohio (STRS Ohio) and to retired non-certified 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 obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS Ohio benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Ohio Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS Ohio. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS Ohio funds is included in the employer contribution rate, currently 14 percent of covered payroll. For the fiscal year ended June 30, 2004, the STRS Ohio Board allocated employer contributions equal to 1.0 percent of covered payroll to the Health Care Reserve Fund. For the LCESC, this amount equaled \$111,147 for fiscal year 2004.

STRS Ohio pays health care benefits from the Health Care Reserve Fund. At June 30, 2003, (the latest information available) the balance in the Fund was \$2.8 billion. For the year ended June 30, 2003, net health care costs paid by STRS Ohio were \$352,301,000 and STRS Ohio had 108,294 eligible benefit recipients.

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

After the allocation for basic benefits, the remainder of the employer's 14 percent contribution is allocated to providing health care benefits. For the fiscal year ended June 30, 2004, employer contributions to fund health care benefits were 4.91 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 2004, the minimum pay was established at \$25,400. For the LCESC, the amount contributed to fund health care benefits, including the surcharge, during the 2004 fiscal year equaled \$258,755.

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 the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2003 (the latest information available), were \$204,930,737 and the target level was \$307.4 million. At June 30, 2003, SERS had net assets available for payment of health care benefits of \$303.6 million. SERS has approximately 50,000 participants currently receiving health care benefits.

10. LONG-TERM LIABILITIES

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

	Principal Outstanding at 6/30/03	Additions	Reductions	Principal Outstanding at 6/30/04	Amounts Due In One Year
Government Activities					
Sky Bank Loan Shuer/Challenger Center 3.17%, Issued 5/5/03 Matures June 1, 2024	\$ 925,000	\$ -	\$ 31,132	\$ 893,868	\$ 34,787
Sky Bank Loan Challenger Center 3.17%, Issued 1/22/03 Matures July 22, 2010	750,000	-	87,302	662,698	98,840
Sky Bank Loan Shuer Center 3.17%, Issued 5/5/03 Matures June 5, 2023	30,000	545,000	-	575,000	20,888
Compensated Absences	1,054,283	68,701	-	1,122,984	515,111
Capital Lease Payable	861,000	531,000	861,000	531,000	172,000
<i>Total Governmental Activities</i>					
<i>Long-Term Liabilities</i>	<u>\$ 3,620,283</u>	<u>\$ 1,144,701</u>	<u>\$ 979,434</u>	<u>\$ 3,785,550</u>	<u>\$ 841,626</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.

Principal and Interest requirement to retire LCESCs General Obligation loans outstanding at June 30, 2004, were as follows:

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

Year Ending June 30	Sky Bank Loan Liability
2005	\$ 224,459
2006	224,459
2007	223,961
2008	223,960
2009	223,960
2010-2014	641,609
2015-2019	509,720
2020-2023	446,785
Total Minimum Loan Payments	2,718,913
Less: Amount Representing Interest	(587,347)
Present Value of Future Minimum Loan Payment	\$ 2,131,566

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, 2004:

Year Ending June 30	Capital Lease Liability
2005	\$ 182,207
2006	188,084
2007	187,951
Total Minimum Lease Payments	558,242
Less: Amount Representing Interest	(27,242)
Present Value of Future Minimum Lease Payment	\$ 531,000

12. JOINTLY GOVERNED ORGANIZATIONS

A. Penta County Joint Vocational School

The Penta County Joint Vocational School (JVS) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The JVS 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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Notes to the Basic Financial Statements For the Fiscal Year Ended June 30, 2004 (Continued)

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 JVS, 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.

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

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2004
(Continued)**

statements of the individual fund types included herein or on the overall financial position of LCESC at June 30, 2004.

B. Litigation

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

C. School Funding Decision

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

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient...".

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

This page intentionally left blank.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004**

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>				
Child and Adult Care Food Program	048199-CCCP-2003	10.558	\$ 2	\$ -
	048199-CCMO-2003		3	601
Total U.S. Department of Agriculture			5	601
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)	048199-6BSD-2004-P	84.027	15,000	1,776
	048199-6BSE-2003-P		-	4,397
Special Education - Preschool Grant (IDEA, Part B)	048199-PGS1-2004-P	84.173	68,874	70,564
(IDEA Part B)	048199-PGS1-2003-P		-	557
	048199-PGD7-2003-P		8,400	8,400
<i>Total Special Education Cluster</i>			92,274	85,694
Safe and Drug -Free Schools and Communities National Programs (Title IV, Part A)	048199-T4S1-2004	84.184	1,835	2,309
	048199-T4S1-2004P		2,151	1,628
	048199-T4S1-2003		-	51
<i>Total CFDA 84.184</i>			3,986	3,988
Eisenhower Professional Development State Grants (Title II, Part B)	048199-MSS4-2002	84.281	-	29,602
	048199-MSS2-2003		68,447	-
<i>Total CFDA 84.281</i>			68,447	29,602
Twenty-First Century Community Learning Centers (Title IV, Part B)	048199-T1S1-2003	84.287	139,959	16,847
	048199-T1S1-2004		270,614	314,760
<i>Total CFDA 84.287</i>			410,573	331,607
Improving Teacher Quality State Grants (Title II, Part A)	048199-TRSA-2003	84.367	(8)	38,299
	048199-TRSA-2004		138,128	165,229
<i>Total CFDA 84.367</i>			138,120	203,528
Vocational Education - Basic Grants to States		84.048	-	57
Comprehensive School Reform	048199-RFMP-2002	84.332	16,814	14,990

(Continued)

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004
(Continued)**

FEDERAL GRANTOR Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
Goals 2000 - State and Local Education Systemic Improvement	048199-G2SP-2001	84.276	-	-
Drug-Free Schools Grant (Title IV, Part A)	048199-DRS2-2002 048199-DRS2-2003 048199-DRS2-2004	84.186	(65,529) (2,884) 109,514	- 48,839 64,487
<i>Total CFDA 84.186</i>			<u>41,101</u>	<u>113,326</u>
Total U.S. Department of Education			<u>771,315</u>	<u>782,792</u>
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Ohio Department of Job and Family Services:</i>				
WIA Youth Activities		17.259	<u>301,297</u>	<u>637,834</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
<i>Passed Through Ohio Department of Education:</i>				
Learn and Serve America School and Community Based Program	048199-SVS2-2004 048199-SVS2-2003	94.004	3,356 -	14,672 399
Total Coporation for National and Community Service			<u>3,356</u>	<u>15,071</u>
U.S. DEPARTMENT OF TRANSPORTATION				
State and Community Highway Safety	2003-SA-N/1 2004SAN/1	20.600	29,397 22,963	15,690 30,733
Total U.S. Department of Transportation			<u>52,360</u>	<u>46,423</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of MRDD:</i>				
Medical Assistance Program (CAFS)		93.778	<u>139,978</u>	<u>139,978</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u>\$ 1,268,311</u>	<u>\$ 1,622,699</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Notes to the Schedule of Federal Awards Expenditures
For the Year Ended June 30, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B - MATCHING REQUIREMENTS

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

This page intentionally left blank.



**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 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, 2004, which collectively comprise LCESC's basic financial statements, and have issued our report thereon dated May 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the LCESC's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2004-001.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not consider the reportable condition described above to be a material weakness. In a separate letter to the LCESC's management dated May 5, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the LCESC's management dated May 5, 2005, we reported another matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, Board of Education, 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 5, 2005



**Auditor of State
Betty Montgomery**

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

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

To the Lucas County Educational Service Center:

Compliance

We have audited the compliance of the Lucas County Educational Service Center (LCESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to each of its major federal programs for the year ended June 30, 2004. 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 obtain reasonable assurance whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially effect a major federal program. An audit includes examining, on a test basis, evidence about LCESC's compliance with those requirements and performing such other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the 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, 2004.

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 in 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 5, 2005

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

Schedule of Findings
OMB Circular A -133 § .505
June 30, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2004-001

Reportable Condition - Capital Assets

The following weaknesses exist over capital assets:

**FINDING NUMBER 2004-001
(Continued)**

- LCESC has not developed a capital asset accounting system or implemented procedures to assist with maintaining total capital asset listings, by location, with tag identification numbers, and other supplemental information, inclusive of accounting for additions when purchased, and deletions when disposed of throughout the fiscal year.
- LCESC has not periodically inventoried its capital assets.
- LCESC does not have procedures in place to accurately determine depreciation/accumulated depreciation, nor to assign assets to a function in order to allocate depreciation to functions.

Failure to obtain timely records or employ adequate controls over the acquisition and disposal of capital assets could result in misappropriation of assets and misstatements of recorded assets. To maintain adequate safeguards over capital assets, and to reduce the risk that LCESC's assets will be misstated, we recommend:

- The LCESC develop and implement procedures to be performed throughout the year, for recording and updating capital assets. These procedures should include tagging all assets meeting LCESC's capitalization criteria. Further, addition and disposal forms should be completed by LCESC and approved by management when assets are acquired or disposed. This information should then be entered on the capital asset accounting system, recording such information as the tag number, a description of the item, the cost, the acquisition date, location, function assigned to, and any other supporting documentation.
- LCESC develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting all list of all capital assets recorded to each location and having individuals responsible for that location perform the inventory of all assets in that location. The assets in each location should be compared to the listing provided, and any assets no longer used should be deleted and any assets included on the listing should be added. Any significant deficiencies should be investigated and documented.
- LCESC develop and maintain a system of recording and accumulating capital asset depreciation. Deletions of equipment should be reduced from accumulated depreciation based on the value of depreciation at date of disposition. Ideally, the capital assets system should assign each asset to a functional expense category. The system should compute annual accumulated depreciation for each asset, and summarize total depreciation expense by function.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**Schedule of Prior Audit Findings
OMB Circular A -133 § .315 (b)
June 30, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:
2003-001	Ohio Revised Code Citation § 5705.41(D)	No	Partially corrected. Reported in Management Letter.
2003-002	Material Weakness over Fixed Assets	No	Partially corrected. Reissued as a reportable condition as finding number 2004-001.
2003-003	34CFR 80.23(b) liquidation of all obligations for CFDA #84.281	Yes	
2003-004	34CFR 80.23(b) liquidation of all obligations for CFDA #84.186	Yes	



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LUCAS EDUCATIONAL SERVICE CENTER

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 9, 2005**