



**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED JUNE 30, 2007



Mary Taylor, CPA
Auditor of State

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Lucas County Educational Service Center:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County Educational Service Center, Lucas County, Ohio (the Lucas ESC), as of and for the year ended June 30, 2007, which collectively comprise the Lucas ESC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lucas ESC's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County Educational Service Center, Lucas County, Ohio, as of June 30, 2007, and the respective changes in financial position, thereof 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 March 28, 2008, on our consideration of the Lucas ESC's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the Lucas ESC'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. The budgetary comparisons for the General, Auxiliary Service, and Community Schools Operations Funds provide additional information and are also not a required part of the basic financial statements. We subjected this information 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.

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

Mary Taylor, CPA
Auditor of State

March 28, 2008

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED**

The discussion and analysis of the Lucas County Educational Service Center's (Lucas ESC) financial performance provides an overall view of Lucas ESC's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at Lucas ESC'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 Lucas ESC's financial performance.

Financial Highlights

Key financial highlights for 2007 are as follows:

- Total Net Assets were \$8,284,593
- Total Revenue was \$28,828,792
- Total Expenses were \$28,235,471
- Changes in Net Assets were \$593,321
- Capital Assets, net of Depreciation, decreased from \$3,605,669 to \$3,554,331

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 Lucas ESC 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 Lucas ESC, presenting both an aggregate view of Lucas ESC'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 Lucas ESC's General Fund, the Auxiliary Services Fund, the Community Schools Operations Fund, and all other non-major funds presented in total in one column. In the case of Lucas ESC, the General, Auxiliary Service, and Community Schools Operations Funds are by far the most significant funds.

Reporting Lucas ESC As A Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by Lucas ESC to provide programs and activities, the view of Lucas ESC as a whole looks at all financial transactions and asks the question, "How did we do financially during 2007?" 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 Lucas ESC's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for Lucas ESC as a whole, the financial position of Lucas ESC has improved or diminished. The causes of this may be the result of many factors, some financial, some not. Non-financial factors include current laws in Ohio restricting revenue growth, facility conditions, required educational programs, and other factors.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

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

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

Reporting Lucas ESC's Most Significant Funds

Fund Financial Statements

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

Governmental Funds - All of Lucas ESC'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 Lucas ESC'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.

Recall the Statement of Net Assets provides the perspective of Lucas ESC as a whole. Table 1 provides a summary of Lucas ESC's net assets for 2007 compared to 2006.

Table 1
Net Assets
Governmental Activities

	2007	2006
Assets		
Current and Other Assets	\$ 8,241,621	\$ 9,415,575
Capital Assets	3,554,331	3,605,669
<i>Total Assets</i>	<u>11,795,952</u>	<u>13,021,244</u>
Liabilities		
Long-term Liabilities	1,294,828	3,327,997
Other Liabilities	2,216,531	2,001,975
<i>Total Liabilities</i>	<u>3,511,359</u>	<u>5,329,972</u>
Net Assets		
Invested in Capital Assets, Net of Debt	3,554,331	1,606,707
Restricted	668,549	1,122,214
Unrestricted	4,061,713	4,962,351
<i>Total Net Assets</i>	<u>\$ 8,284,593</u>	<u>\$ 7,691,272</u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Total assets decreased \$1,225,292. Equity in pooled cash and cash equivalents decreased \$26,242. Lucas ESC's governmental activities net assets increased by \$593,321. Table 2 shows the changes in net assets for fiscal year 2007.

Table 2
Changes in Net Assets for Governmental Activities

	2007	2006
Revenue		
Program Revenues:		
Charges for Services	\$ 14,528,850	\$ 14,040,295
Operating Grants	4,976,847	4,982,394
General Revenue:		
Grants and Entitlements	7,674,388	8,226,546
Other	1,648,707	1,338,806
<i>Total Revenues</i>	<u>28,828,792</u>	<u>28,588,041</u>
Program Expenses		
Instruction	6,558,841	6,410,098
Support Services:		
Pupil and Instructional Staff	10,265,754	8,867,063
Board of Education, Administration, Fiscal and Business	5,151,264	5,382,790
Operations and Maintenance of Plant	1,294,319	1,093,075
Pupil Transportation	681,715	1,199,604
Central	106,200	57,007
Non-Instructional Services	3,953,374	4,105,955
Facilities Acquisition and Construction Services	157,928	27,304
Interest and Fiscal Charges	66,076	75,962
Total Expenses	<u>28,235,471</u>	<u>27,218,858</u>
Increase in Net Assets	<u>\$ 593,321</u>	<u>\$ 1,369,183</u>

Governmental Activities - Instruction comprises 23.2 percent of governmental program expenses. Interest expense was \$66,076. Interest expense was attributable to the loans and capital leases borrowed for capital projects, which were all, paid off this fiscal year.

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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2007		2006	
	Total Cost of Service	Net Cost of Service	Total Cost of Service	Net Cost of Service
Instruction	\$ 6,558,841	\$ (6,836,389)	\$ 6,410,098	\$ (7,305,552)
Support Services:				
Pupil and Instructional Staff	10,265,754	6,583,113	8,867,063	5,546,326
Board of Education, Administration				
Fiscal and Business	5,151,264	4,789,761	5,382,790	5,033,625
Operation and Maintenance	1,294,319	1,293,970	1,093,075	1,089,679
Pupil Transportation	681,715	(867,468)	1,199,604	244,058
Central	106,200	93,357	57,007	44,043
Operation of Non-Instructional Services	3,953,374	3,449,426	4,105,955	3,440,724
Facilities Acquisition and Construction Services	157,928	157,928	27,304	27,304
Interest and Fiscal Charges	66,076	66,076	75,962	75,962
<i>Total Expenses</i>	<u>\$ 28,235,471</u>	<u>\$ 8,729,774</u>	<u>\$ 27,218,858</u>	<u>\$ 8,196,169</u>

The dependence upon state foundation revenues for governmental activities is apparent. Although no general revenues were used to fund instructional activities, Lucas ESC's general revenue is 32.3 percent of total revenue. The state foundation revenue, as a whole, is by far the primary support for Lucas ESC.

Lucas ESC's Funds

These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues of \$28,278,542 and expenditures of \$30,228,383. The net change in General fund balance for the year was an decrease of \$1,021,167. This decline indicated Lucas ESC's needed to increase its revenue base to continued meeting its obligations as a whole.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
UNAUDITED
(Continued)**

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2007, Lucas ESC had \$3,554,331 invested in buildings, improvements, equipment, and vehicles. Table 4 shows fiscal 2007 balances compared to 2006:

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

	2007	2006
Buildings and Improvements	\$ 2,883,025	\$ 2,964,209
Improvements Other than Buildings	66,490	72,720
Furniture, Fixtures, and Equipment	604,777	564,247
Vehicles	39	4,493
<i>Totals</i>	\$ 3,554,331	\$ 3,605,669

All categories decreased due to a lack of major additions and related accumulated depreciation during the audit period. The lack of an increase in all categories is the result of budget reductions deferring these purchases until funds are available.

Debt

At June 30, 2007, Lucas ESC had no debt.

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 Lucas ESC's finances and to show Lucas ESC'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, at 2275 Collingwood Avenue, Toledo, Ohio 43620-1148 or by e-mail at lc_rac@nwoca.org.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Net Assets
June 30, 2007**

	Governmental Activities
Assets	
Equity in Pooled Cash and Cash Equivalents	\$ 5,824,224
Receivables:	
Accounts	2,071,064
Intergovernmental	343,487
Accrued Interest	1,641
Prepaid Items	1,205
Capital assets, net of depreciation	3,554,331
<i>Total Assets</i>	11,795,952
Liabilities	
Accounts Payable	451,099
Accrued Wages	1,359,039
Intergovernmental Payable	406,393
Accrued Interest Payable	
Long-Term Liabilities:	
Due within one year	282,729
Due in more than one year	1,012,099
<i>Total Liabilities</i>	3,511,359
Net Assets	
Invested in capital assets, net of related debt	3,554,331
Restricted for:	
Other Purposes	668,549
Unrestricted	4,061,713
<i>Total Net Assets</i>	\$ 8,284,593

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Activities
For the Fiscal Year Ended June 30, 2007**

	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	\$ 464,690		\$ (293,934)
Special	5,945,166	\$ 12,950,371	7,246,588
Vocational	85,919		(85,349)
Adult/Continuing	55,870		(27,268)
Other	7,196		(3,648)
Support Services:			
Pupils	5,546,504		(4,687,354)
Instructional Staff	4,719,250	725	(1,895,759)
Board of Education	34,032		(33,972)
Administration	3,935,330		(3,617,522)
Fiscal	1,050,286		(1,006,651)
Business	131,616		(131,616)
Operation and Maintenance	1,294,319		(1,293,970)
Pupil Transportation	681,715	1,549,113	867,468
Central	106,200		(93,357)
Operation of Non-Instructional Services	3,953,374	28,641	(3,449,426)
Facilities Acquisitions and Construction Services	157,928		(157,928)
Interest and Fiscal Charges	66,076		(66,076)
<i>Total Governmental Activities</i>	<u>\$ 28,235,471</u>	<u>\$ 14,528,850</u>	<u>\$ (8,729,774)</u>
 General Revenues:			
Grants and Entitlements not Restricted to Specific Purposes			7,674,388
Unrestricted investment earnings			373,242
Gain on Sale of Assets			121,434
Miscellaneous			1,154,031
<i>Total general revenues</i>			<u>9,323,095</u>
Change in net assets			593,321
<i>Net assets - July 1, 2006</i>			<u>7,691,272</u>
<i>Net assets - June 30, 2007</i>			<u>\$ 8,284,593</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Balance Sheet
Governmental Funds
June 30, 2007**

	General	Auxiliary Services	Community School Operations	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in Pooled Cash and Cash Equivalents	\$ 1,545,839	\$ 556,901	\$ 1,920,438	\$ 1,801,046	\$ 5,824,224
Receivables:					
Accounts	1,211,831	110,912	726,421	21,900	2,071,064
Intergovernmental	48,773			294,714	343,487
Accrued Interest	1,606	35			1,641
Due From Other Funds	11,178				11,178
Prepaid Items	469		736		1,205
<i>Total Assets</i>	<u>2,819,696</u>	<u>667,848</u>	<u>2,647,595</u>	<u>2,117,660</u>	<u>8,252,799</u>
Liabilities					
Accounts Payable	176,228	21,865	63,556	189,450	451,099
Accrued Wages	953,018	330,888	24,710	50,423	1,359,039
Intergovernmental	258,760	58,261	51,449	37,923	406,393
Due to Other Funds				11,178	11,178
Deferred Revenue	732,693		489,486	152,625	1,374,804
<i>Total Liabilities</i>	<u>2,120,699</u>	<u>411,014</u>	<u>629,201</u>	<u>441,599</u>	<u>3,602,513</u>
Fund Balances					
Reserved for Encumbrances	72,920		279,429	316,200	668,549
Unreserved , Reported in:					
General Fund	626,077				626,077
Special Revenue Funds		256,834	1,738,965	1,359,861	3,355,660
<i>Total Fund Balances</i>	<u>698,997</u>	<u>256,834</u>	<u>2,018,394</u>	<u>1,676,061</u>	<u>4,650,286</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 2,819,696</u>	<u>\$ 667,848</u>	<u>2,647,595</u>	<u>\$ 2,117,660</u>	<u>\$ 8,252,799</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2007**

Total Governmental Fund Balances		\$ 4,650,286
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.		3,554,331
Other long-term assets are not available to pay current period expenditures, and therefore are deferred in the funds.		
Accounts		1,173,818
Intergovernmental		200,986
Some liabilities are not due and payable in the current and therefore are not reported in the funds:		
Due within 1 Year - Compensated Absences	\$ (282,729)	
Due in More than One Year - Compensated Absences	<u>(1,012,099)</u>	
		<u>(1,294,828)</u>
<i>Net Assets of Governmental Activities</i>		<u><u>\$ 8,284,593</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2007**

	General	Auxiliary Services	Community School Operations	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental	\$ 8,570,870			\$ 4,799,985	\$ 13,370,855
Investment Income	363,549	\$ 9,693			373,242
Tuition	3,069,014			309,515	3,378,529
Rentals	451,173				451,173
Extracurricular Activities	4,516				4,516
Classroom Materials and Fees	48,997		\$ 20,040	21,999	91,036
Customer Services	2,132,718	3,534,462	2,633,376	5,192	8,305,748
Transportation Fees			1,269,906		1,269,906
Miscellaneous	629,948		2,822	400,767	1,033,537
<i>Total Revenue</i>	<u>15,270,785</u>	<u>3,544,155</u>	<u>3,926,144</u>	<u>5,537,458</u>	<u>28,278,542</u>
Expenditures					
Current:					
Instruction:					
Regular	380,809			73,434	454,243
Special	5,639,385	121,870		237,650	5,998,905
Vocational	84,428				84,428
Adult/Continuing				55,870	55,870
Other				7,196	7,196
Support Services:					
Pupils	4,429,966	208,600	23,414	910,692	5,572,672
Instructional Staff	1,089,913		413,077	3,228,996	4,731,986
Board of Education	33,677			355	34,032
Administration	2,844,993		425,710	608,115	3,878,818
Fiscal	543,945		456,373	42,895	1,043,213
Business	129,788			6	129,794
Operation and Maintenance	1,147,721		140,285	8,940	1,296,946
Pupil Transportation	19,340		658,163	2,338	679,841
Central	71,107		26,250	11,700	109,057
Operation of Non-Instructional	268,938	3,232,421	3,648	534,581	4,039,588
Facility Acquisition and Construction Services	16,777		18,900		35,677
Debt Service:					
Principal Retirement	1,537,714			461,246	1,998,960
Interest and Fiscal Charges	66,361			10,796	77,157
<i>Total Expenditures</i>	<u>18,304,862</u>	<u>3,562,891</u>	<u>2,165,820</u>	<u>6,194,810</u>	<u>30,228,383</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(3,034,077)</u>	<u>(18,736)</u>	<u>1,760,324</u>	<u>(657,352)</u>	<u>(1,949,841)</u>
Other Financing Sources (Uses)					
Proceeds from Sale of Fixed Assets	109,704		11,730		121,434
Operating Transfers In	1,923,668			608,004	2,531,672
Operating Transfers Out	(20,462)		(2,408,947)	(102,263)	(2,531,672)
<i>Total Other Sources (Uses)</i>	<u>2,012,910</u>		<u>(2,397,217)</u>	<u>505,741</u>	<u>121,434</u>
<i>Net Change in Fund Balance</i>	<u>(1,021,167)</u>	<u>(18,736)</u>	<u>(636,893)</u>	<u>(151,611)</u>	<u>(1,828,407)</u>
Fund Balances at Beginning of Year	1,720,164	275,570	2,655,287	1,827,672	6,478,693
<i>Fund Balances End of Year</i>	<u>\$ 698,997</u>	<u>\$ 256,834</u>	<u>\$ 2,018,394</u>	<u>\$ 1,676,061</u>	<u>\$ 4,650,286</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**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, 2007**

Net Change in Fund Balances -Total Governmental Funds \$ (1,828,407)

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

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

Capital Outlays	\$ 100,527	
Depreciation Expense	(151,865)	
Total		(51,338)

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

Tuition	345,286	
Customer Services	470,361	
Transportation Fees	279,207	
Grants	(695,496)	
Miscellaneous Revenue	29,458	
Total		428,816

Repayments of loans and capital lease principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the statement of net assets

Loan Principal Payments	1,816,960	
Capital Lease Principal Payments	182,000	
Total		1,998,960

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

11,081

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.

Compensated Absences	34,209	
		34,209

<i>Change in Net Assets of Governmental Activities</i>	\$	593,321
		593,321

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007**

	Investment Trust	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$ 624,328	\$ 910,152
Account Receivable		81,460
Notes Receivable		24,406
<i>Total Assets</i>	\$ 624,328	\$ 1,016,018
Liabilities		
Accounts Payable		\$ 52,919
Accrued Wages and Benefits Payable		11,912
Held and Due to Others		926,781
Undistributed Monies		24,406
<i>Total Liabilities</i>	\$ -	\$ 1,016,018
Net Assets		
Net Assets Available for Pool Participants	\$ 624,328	
<i>Total Net Assets</i>	\$ 624,328	

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY

Statement of Changes in Fiduciary Net Assets
Investment Trust Fund
June 30, 2007

	Investment Trust
<u>Additions:</u>	
Interest	\$ 42,041
Capital Transactions	1,261,618
<i>Total Additions</i>	1,303,659
<u>Deductions:</u>	
Operating Expenses	1,381,885
<i>Total Deductions</i>	1,381,885
Change in Net Assets	(78,226)
Net Assets at Beginning of Year	702,554
Net Assets at End of Year	\$ 624,328

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. DESCRIPTION OF EDUCATIONAL SERVICE CENTER AND REPORTING ENTITY

The Lucas County Educational Service Center (Lucas ESC) is located in Toledo, Ohio, the county seat. Lucas ESC supplies supervisory, special education, administrative, and other services to the Anthony Wayne, Ottawa Hills, Springfield, and Washington Local School Districts; Perrysburg and Rossford Exempted Village School Districts; and Maumee, Oregon, and Sylvania City School Districts. Lucas ESC furnishes leadership and consulting services designed to strengthen these school districts in areas they are unable to finance or staff independently.

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

Reporting Entity

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

As of June 30, 2007, Lucas ESC served as fiscal agent for charter schools established under Chapter 3314 of the Ohio Revised Code. These charter schools are not considered a part of Lucas ESC.

JOINTLY GOVERNED ORGANIZATIONS

Penta Career Center

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

Northwest Ohio Computer Association

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

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

Northwest Ohio Education Council

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

PUBLIC ENTITY RISK POOL

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

The NOEC is a public entity risk pool consisting of Lucas ESC 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 Lucas ESC. Lucas ESC acts as fiscal agent of NOEC, but their financial statements are not reported with Lucas ESC financial statements.

Information about these organizations is presented in Note 10 to the basic financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lucas ESC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Lucas ESC also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its governmental-type activities, provided they do not conflict with or contradict GASB pronouncements. Lucas ESC does not have any business-type funds. Following are the more significant of Lucas ESC's accounting policies.

A. Basis of Presentation

Government-wide Financial Statements

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

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

A. Basis of Presentation (Continued)

Fund Financial Statements

During the year, Lucas ESC segregates transactions related to certain Lucas ESC 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 Lucas ESC at this more detailed level. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a single column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

B. Fund Accounting

Lucas ESC 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 Lucas ESC functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The various funds of Lucas ESC 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, Auxiliary Service Fund, and Community Schools Operations Fund are Lucas ESC's only major funds:

General Fund

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Auxiliary Service Fund

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

Community Schools Operations Fund

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the ESC under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the ESC's own programs. The ESC's only trust fund is an investment trust fund which accounts for monies held by the ESC as fiscal agent for the NOEC. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ESC's agency funds are monies due to others for Lucas ESC activities they have participated in.

C. Measurement Focus

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

D. Basis of Accounting

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

Revenues - Exchange and Non-exchange Transactions

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

Non-exchange transactions, in which Lucas ESC receives value without directly giving equal value in return, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which Lucas ESC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to Lucas ESC on a reimbursement basis. On 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. Cash and Investments

To improve cash management, all cash received by LCESC is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through LCESC's records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

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 2007 amounted to \$363,549, which includes \$185,450 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.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of purchase and an expenditure/expense is reported in the year which services are consumed.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

G. Capital Assets

General capital assets greater than \$5,000 are those assets that 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. Lucas ESC does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized.

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

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

H. Compensated Absences

Compensated absences of Lucas ESC 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 Lucas ESC and the employee.

In accordance with the provisions of Statement No. 16 of the Governmental Accounting Standards Board, Accounting for Compensated Absences, a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at the balance sheet date by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty (50) or greater with at least ten (10) years of service were considered expected to become eligible to retire in accordance with GASB 16.

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

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

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

I. 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.

J. 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 Lucas ESC or through external restrictions imposed by creditors, grantors, or laws and regulations of other governments.

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

K. Fund Balance Reserves

Lucas ESC 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.

L. 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.

M. 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.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (Continued)

N. 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 Lucas ESC and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal 2007.

3. DEPOSITS AND INVESTMENTS

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 LCESC treasury, in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) account, or in money market deposit accounts.

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

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

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

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

1. United States Treasury bills, bonds, notes or any other obligation or security issued by the United State Treasury or any other obligation guaranteed as to principle and interest by the United States;
2. Bonds, notes, debentures, or other obligations of securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association and the Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchased agreement must exceed the principal value of the agreements by at least two percent and be marked to market to market daily, and that the term of the agreement must not exceed thirty days;

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

3. DEPOSITS AND INVESTMENTS – (Continued)

4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's Investment pool; (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

Deposits

At fiscal year end June 30, 2007, the carrying amount of LCESC deposits was \$7,358,704 and the bank balance was \$9,066,112. As of June 30, 2007, \$1,181,770 was covered by the Federal Depository Insurance Corporation, and \$7,884,342 was protected by a collateral pool of eligible securities deposited with a qualified trustee and is exposed to custodial credit risk.

Custodial credit risk for deposits is the risk that in the event of bank failure, the LCESC will not be able to recover deposits or collateral securities that are in the possession of an outside party. Although all State statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the LCESC to a successful claim by the FDIC.

The LCESC has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the LCESC or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

4. RECEIVABLES

Receivables at June 30, 2007, consisted of interest, accounts (billings for user charged services), intergovernmental receivables arising from grants, entitlements and shared revenues, and notes (loans made to community schools). All receivables are considered collectible in full. A summary of the principal items of receivables follows:

Governmental-Type Activities	
Accounts Receivable:	
General Fund	\$ 1,211,831
Community Schools Operations Fund	726,421
Auxiliary Services Funds	110,912
Other Governmental Funds	21,900
<i>Total Accounts Receivable</i>	<u>2,071,064</u>
Intergovernmental Receivable:	
General Fund	48,773
Other Governmental Funds	294,714
<i>Total Intergovernmental Receivable</i>	<u>343,487</u>
Accrued Interest Receivable:	
General Fund	1,606
Auxiliary Services Fund	35
<i>Total Accrued Interest Receivable</i>	<u>1,641</u>
<i>Total Governmental Activities</i>	<u>2,416,192</u>
Fiduciary-Type Activities	
Accounts Receivable	81,460
<i>Total Fiduciary-Type Activities</i>	<u>81,460</u>
<i>Grand Total</i>	<u>\$2,497,652</u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

5. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance 07/01/06	Additions	Deletions	Balance 06/30/07
Governmental Activities				
Buildings and Improvements	\$ 3,247,353			\$ 3,247,353
Improvements Other than Buildings	93,453			93,453
Furniture, Fixtures, and Equipment	931,201	\$ 100,527		1,031,728
Vehicles	19,385			19,385
<i>Totals at Historical Cost</i>	<u>4,291,392</u>	<u>100,527</u>		<u>4,391,919</u>
Less Accumulated Depreciation:				
Buildings and Improvements	283,144	81,184		364,328
Improvements Other than Buildings	20,733	6,230		26,963
Furniture, Fixtures, and Equipment	366,954	59,997		426,951
Vehicles	14,892	4,454		19,346
<i>Total Accumulated Depreciation</i>	<u>685,723</u>	<u>151,865</u>		<u>837,588</u>
<i>Governmental Activities</i>				
<i>Capital Assets, Net</i>	<u>\$ 3,605,669</u>	<u>\$ (51,338)</u>		<u>\$ 3,554,331</u>

*Depreciation expense was charged to governmental functions as follows:

Instruction:		
Regular	\$	1,519
Special		1,063
Support Service:		
Pupil		3,037
Instructional Staff		12,605
Administration		1,974
Fiscal		608
Business		1,822
Operation and Maintenance of Plant		1,215
Transportation		607
Central		456
Operation of Non-Instructional Services		4,708
Facilities Acquisition and Construction		<u>122,251</u>
Total Depreciation Expense	<u>\$</u>	<u>151,865</u>

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

6. RISK MANAGEMENT

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

Lucas ESC is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, injuries to employees and natural disasters. Lucas ESC 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)	\$ 200,000,000
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.

7. DEFINED BENEFIT PENSION PLANS

A. State Employees Retirement System

Lucas ESC contributes to State Employees Retirement System of Ohio (SERS), a cost sharing multiple employer defined benefit pension plan administered by the State Employees Retirement Board. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to State Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476.

For the fiscal year 2007, plan members were required to contribute 10 percent of their annual covered salary and Lucas ESC was required to contribute an actuarially determined rate. The employer rate for period ending June 30, 2007, was 14 percent of annual covered payroll; 10.68 percent was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS Retirement Board. Lucas ESC's required contribution for pension obligations to SERS for the fiscal year June 30, 2007, 2006, and 2005, was \$367,537, \$367,180 and \$314,522; 97.17 percent has been contributed for fiscal year 2007 and 100 percent has been contributed for fiscal years 2006 and 2005. \$13,851 represents the unpaid contribution for fiscal year 2007. The balance outstanding is reflected as an intergovernmental payable.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

B. State Teachers Retirement System of Ohio

Lucas ESC contributes to the State Teachers Retirement System of Ohio (STRS Ohio), a cost sharing multiple employer public employee retirement system. STRS Ohio is a statewide retirement plan for licensed teachers and other agency controlled, managed and supported, in whole or in part, by the state or any political subdivision thereof.

Plan Options – New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB. In the Combined Plan, the member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation for every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

Combined Plan Benefits – The member allocates Member contributions, and employer contributions are used to fund a defined benefit payment. A member's defined benefit is determined by multiplying 1% of the member's final average salary by the member's years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

Eligible faculty of Ohio' public colleges and universities may choose to enroll in either STRS Ohio or an alternative retirement plan (ARP) offer by their employer. Employees have 120 days from their employment date to select a retirement plan.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount for Defined Benefit Plan participants.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependent. Coverage under the current program includes hospitalization, physicians' fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio Law health care benefits are not guaranteed.

A Defined Benefit 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. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC, or Combined Plans. Various other benefits are available to members' beneficiaries.

Chapter 3307 of the Revised Code provides statutory authority for member and employer contributions. Contributions rate are established by the State Teachers Retirement Board, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers.

For the fiscal year ended June 30, 2007, plan members were required to contribute 10 percent of their annual covered salaries. Lucas ESC was required to contribute 14 percent; 13 percent was the portion used to fund pension obligations. Lucas ESC's required contribution for pension obligations for the fiscal year 2007, 2006, and 2005, was \$1,502,796, 1,445,875 and \$1,444,915; 90.91 percent has been contributed for fiscal year June 30, 2007, and 100 percent for the 2006 and 2005. \$145,183 represents the unpaid contribution for fiscal year 2007. The balance outstanding is reflected as an intergovernmental payable.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

7. DEFINED BENEFIT PENSION PLANS – (Continued)

STRS Ohio issues a stand-alone financial report. Copies of STRS Ohio 2007 Comprehensive Annual Financial Report will be available after January 1, 2008. Additional information or copies of STRS Ohio's 2007 Comprehensive Annual Financial Report can be requested by writing to STRS Ohio, 275 E. Board St., Columbus, Ohio 43215-3771, by calling (614) 227-4090, or by visiting the STRS Ohio Web site at www.strsoh.org.

8. POSTEMPLOYMENT BENEFITS

Lucas ESC provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS) and to retired non-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 funded on a pay-as-you-go basis.

All STRS retirees who participated in the DB or combined plans and their dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. All benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14 percent of covered payroll. For fiscal year ended June 30, 2007, the STRS Board allocated employer contributions equal to 1 percent of covered payroll to the Health Care Reserve Fund. For Lucas ESC, this amount equaled \$115,600 for fiscal year 2007.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2006, (the latest information available) the balance in the Fund was \$3.5 billion. For the year ended June 30, 2006, net health care costs paid by STRS were \$282,743,000 and STRS had 119,184 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. All retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility, and retirement status.

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, 2007, employer contributions to fund health care benefits were 3.32 percent of covered payroll, compared to 3.42 percent of covered payroll for fiscal year 2006. 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 2007, the minimum pay was established at \$35,800. However, the surcharge is capped at 2 percent of each employer's SERS salaries. For the 2007 fiscal year, the Lucas ESC paid \$174,009 to fund health care benefits, including the surcharge.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

8. POSTEMPLOYMENT BENEFITS – (Continued)

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 projected claims less premium contributions for the next year. Expenses for health care at June 30, 2006, (the latest information available), were \$158,751,207. At June 30, 2006, SERS had net assets available for payment of health care benefits of \$295.6 million. SERS has 59,492 participants eligible to receive benefits.

9. LONG-TERM LIABILITIES

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

	Principal Outstanding at 6/30/06	Additions	Reductions	Principal Outstanding at 6/30/07	Amounts Due In One Year
Government Activities					
Sky Bank Loan/Shuer Center 3.17%, Issued 5/5/03 Matures June 5, 2023	\$ 823,167		\$ 823,167		
Sky Bank Loan/Challenger Center 3.70%, Issued 1/22/03 Matures July 22, 2010	461,246		461,246		
Sky Bank Loan Shuer/Challenger Centers 3.70%, Issued 5/5/03 Matures June 1, 2024	532,547		532,547		
Compensated Absences	1,329,037		34,209	\$ 1,294,828	\$ 282,729
Capital Lease Payable	182,000		182,000		
<i>Total Governmental Activities Long-Term Liabilities</i>	<u>\$ 3,327,997</u>		<u>\$ 2,033,169</u>	<u>\$ 1,294,828</u>	<u>\$ 282,729</u>

All Sky Bank long-term loans were paid off this fiscal year and represented 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. These capital leases were paid off this fiscal year also.

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

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

10. JOINTLY GOVERNED ORGANIZATIONS AND PUBLIC ENTITY RISK POOL

A. Penta Career Center

The Penta Career Center (PCC) is a distinct political subdivision of the State of Ohio which provides vocational education to students. The PCC is operated under the direction of a Board consisting of eleven members, each appointed for a term of two years, to serve the sixteen participating school districts. Six members are appointed during the even number years, one each from the Lucas, Ottawa, and Wood County Centers, one each from the Bowling Green and Maumee City School Districts, and one from the Rossford Exempted Village School District. Five members are appointed during the odd number years, one each from the Fulton, Lucas, Sandusky, and Wood County Centers and one from the Perrysburg Exempted Village School District. The Board possesses its own budgeting and taxing authority. Financial information can be obtained from the PCC, Carrie Herringshaw, who serves as Treasurer, at 30095 Oregon Road, Perrysburg, Ohio 43551-4594.

B. Northwest Ohio Computer Association

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

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

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 Education Council

The Northwest Ohio Education Council (NWOEC) is a Council of Governments created pursuant to Chapter 167.01 of the Ohio Revised Code. The governing board created a nine-member Insurance Committee that conducts the business and affairs of the Northwest Ohio Educational Council Self-Insurance Pool Program (NOEC Program).

D. Northwest Ohio Educational Council Self-Insurance Pool Program

Lucas ESC 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 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. Lucas ESC paid \$45,524 for these services to NOEC in fiscal year 2007. To obtain financial information write to Frank McKain, MARCH USA, One Seagate Center, Suite 1860, Toledo, Ohio 43604.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

11. CONTINGENT LIABILITIES

Grants

Lucas ESC receives significant financial assistance from numerous federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of Lucas ESC at June 30, 2007.

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Intergovernmental	\$ 8,354,664	\$ 8,198,574	\$ 8,570,870	\$ 372,296
Earnings on Investments	154,262	276,270	363,770	87,500
Food Services	4,251	4,920	4,516	(404)
Tuition	2,221,661	3,530,967	3,414,395	(116,572)
Classroom Material and Fees	48,945	90,154	48,997	(41,157)
Customer Services	1,722,586	2,267,497	2,419,785	152,288
Rentals	20,570	54,651	266,594	211,943
Transportation Fees	585	13,258		(13,258)
Miscellaneous Revenue	261,149	562,771	564,232	1,461
<i>Total Revenue</i>	<u>12,788,673</u>	<u>14,999,062</u>	<u>15,653,159</u>	<u>654,097</u>
Expenditures				
Current:				
Instruction:				
Regular	255,239	716,341	386,614	329,727
Special	5,854,313	6,018,892	5,651,736	367,156
Vocational	30,324	43,392	84,845	(41,453)
Support Services:				
Pupils	3,842,764	4,400,678	4,430,656	(29,978)
Instructional Staff	1,343,701	1,503,919	1,155,791	348,128
Board of Education	26,450	47,191	33,667	13,524
Administration	2,075,380	3,286,759	2,903,209	383,550
Fiscal	492,488	546,543	550,515	(3,972)
Business	153,315	169,322	136,427	32,895
Operation and Maintenance	1,001,459	1,245,539	1,114,381	131,158
Pupil Transportation	235,786	54,427	32,991	21,436
Central	127,491	78,785	78,385	400
Operation of Non-Instructional	174,391	207,443	267,673	(60,230)
Facilities Acquisition and Construction	52,322	44,641	16,777	27,864
Debt Service:				
Principal Retirement	234,479	1,548,027	1,537,714	10,313
Interest and Fiscal Charges	56,048	56,048	66,361	(10,313)
<i>Total Expenditures</i>	<u>15,955,950</u>	<u>19,967,947</u>	<u>18,447,742</u>	<u>1,520,205</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(3,167,277)</u>	<u>(4,968,885)</u>	<u>(2,794,583)</u>	<u>2,174,302</u>

(Continued)

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
General Fund
For the Fiscal Year Ended June 30, 2007
(Continued)**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Other Financing Sources (Uses)				
Other Miscellaneous Uses		(400,000)		400,000
Refund of Prior Year Expenditures	1,345	20,912	121,597	100,685
Proceeds from Sale of Assets		8,721	109,704	100,983
Operating Transfers Out	(50,000)	(943,312)	(20,462)	922,850
Operating Transfers In		595,892	2,096,419	1,500,527
<i>Total Other Sources (Uses)</i>	<u>(48,655)</u>	<u>(717,787)</u>	<u>2,307,258</u>	<u>3,025,045</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Uses</i>	(3,215,932)	(5,686,672)	(487,325)	5,199,347
<i>Fund Balances at Beginning of Year</i>	1,641,926	1,641,926	1,641,926	
Prior Year Encumbrances Appropriated	<u>204,373</u>	<u>204,373</u>	<u>204,373</u>	
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ (1,369,633)</u>	<u>\$ (3,840,373)</u>	<u>\$ 1,358,974</u>	<u>\$ 5,199,347</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Auxiliary Service Fund
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Earnings on Investments			\$ 9,703	\$ 9,703
Customer Services	\$ 9,800	\$ 4,842,218	3,423,549	(1,418,669)
<i>Total Revenue</i>	<u>9,800</u>	<u>4,842,218</u>	<u>3,433,252</u>	<u>(1,408,966)</u>
Expenditures				
Current:				
Special Instruction		135,625	131,950	(3,675)
Pupils		89,753	178,253	88,500
Operation of Non-Instructional		1,321,733	3,251,805	1,930,072
<i>Total Expenditures</i>		<u>1,547,111</u>	<u>3,562,008</u>	<u>(2,014,897)</u>
<i>Excess of Revenues Over/ (Under) Expenditures</i>	<u>9,800</u>	<u>3,295,107</u>	<u>(128,756)</u>	<u>(3,423,863)</u>
Fund Balances at Beginning of Year	587,341	587,341	587,341	
Prior Year Encumbrances Appropriated	<u>87,463</u>	<u>87,463</u>	<u>87,463</u>	
<i>Fund Balances (Deficit) at End of Year</i>	<u>\$ 684,604</u>	<u>\$ 3,969,911</u>	<u>\$ 546,048</u>	<u>\$ (3,423,863)</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual Comparison (Non-GAAP)
Community School Operations Fund
For the Fiscal Year Ended June 30, 2007**

	Budgeted Amounts			Variance Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Transportation Fees	\$ 394,140	\$ 908,704	\$ 1,345,832	\$ 437,128
Customer Services	2,566,216	3,125,736	2,926,045	(199,691)
Classroom Materials and Fees		17,460	20,040	2,580
Miscellaneous Revenue	18,787	17,346	16,748	(598)
<i>Total Revenue</i>	<u>2,979,143</u>	<u>4,069,246</u>	<u>4,308,665</u>	<u>239,419</u>
Expenditures				
Support Services:				
Pupil	107	179,497	40,652	138,845
Instructional Staff	1,258	79,508	409,753	(330,245)
Administrative	13,198	856,880	431,139	425,741
Fiscal	9,773	657,372	482,128	175,244
Operation and Maintenance of Plant	7,464	32,265	129,809	(97,544)
Transportation	343,943	1,816,533	1,549,149	267,384
Central		46,750	26,250	20,500
Operation of Non-Instructional			3,648	(3,648)
Facilities Acquisition and Construction Services			18,900	(18,900)
<i>Total Expenditures</i>	<u>375,743</u>	<u>3,668,805</u>	<u>3,091,428</u>	<u>577,377</u>
<i>Excess of Revenues Over Expenditures</i>	<u>2,603,400</u>	<u>400,441</u>	<u>1,217,237</u>	<u>816,796</u>
Other Financing Sources				
Proceeds from the Sale of Assets			11,730	11,730
Refund of Prior Year Expenditures		59	4,414	4,355
Operating Transfers Out		(2,440,239)	(2,408,947)	31,292
Operating Transfers In			605,625	605,625
<i>Total Other Sources</i>		<u>(2,440,180)</u>	<u>(1,787,178)</u>	<u>653,002</u>
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures</i>	2,603,400	(2,039,739)	(569,941)	1,469,798
Fund Balances at				
Beginning of Year	1,564,498	1,564,498	1,564,498	
Prior Year Encumbrances Appropriated	578,298	578,298	578,298	
<i>Fund Balances at End of Year</i>	<u>\$ 4,746,196</u>	<u>\$ 103,057</u>	<u>\$ 1,572,855</u>	<u>\$ 1,469,798</u>

SEE ACCOMPANYING NOTES TO THE SUPPLEMENTAL INFORMATION

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FICAL YEAR ENDED JUNE 30, 2007**

1. BUDGETARY PROCESS

There are no budgetary requirements for Educational Service Centers identified in the Ohio Revised Code nor does the State Department of Education specify any budgetary guidelines to be followed.

Lucas ESC's Board budgets for resources estimated to be received during the fiscal year. The estimated revenues may be amended during the fiscal year if projected increases or decreases in revenue are identified by the Treasurer. The amounts reported as both the original budgeted amounts and the final budgeted amounts on the budgetary statements reflect the amounts of the estimated revenues in effect at the time final appropriations were passed by the Board.

Lucas ESC's Board adopts an annual appropriations resolution, which is the Board's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by the Board. The level of control has been established by the Board at the fund level for all funds. The Treasurer has been authorized to allocate appropriations to the function and object level within all funds.

Throughout the fiscal year, appropriations may be amended or supplemented as circumstances warrant. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the first appropriations resolution for that fund that covered the entire fiscal year, including amounts automatically carried forward from prior fiscal years. The amounts reported as the final budgeted amounts on the budgetary statements represent the final appropriation amounts passed by the Board during the fiscal year.

2. BUDGETARY BASIS OF ACCOUNTING

While Lucas ESC 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 and major special revenue funds:

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
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**NOTES TO SUPPLEMENTAL INFORMATION
FOR THE FICAL YEAR ENDED JUNE 30, 2007
(Continued)**

2. BUDGETARY BASIS OF ACCOUNTING – (Continued)

	Net Change in Fund Balance		
	General	Auxiliary Services	Community Schools Operations
Budget Basis	\$ (487,325)	\$ (128,756)	\$ (569,941)
Adjustments:			
Revenue Accruals:			
Accrued FY2006, Received in Cash FY2007	(1,206,744)	(43)	(458,946)
Accrued FY2007, Not Yet Received in Cash	824,370	110,946	76,424
Expenditure Accruals:			
Accrued FY2006, Paid in Cash FY2007	1,342,406	399,278	631,572
Accrued FY2007, Not Yet Paid in Cash	(1,387,537)	(411,014)	(53,546)
Encumbrances	188,011	10,853	347,583
Other Financial Sources/Uses:			
Refund of Prior Year Expenditures	(121,597)		(4,414)
Transfers In	(172,751)		(605,625)
GAAP Basis	<u>(1,021,167)</u>	<u>(18,736)</u>	<u>(636,893)</u>

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**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

FEDERAL GRANTOR/ <i>Pass Through Grantor</i> Program Title	Pass-Through Entity's Number	Federal CFDA Number	Receipts	Disburse- ments
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
<u>Nutrition Cluster:</u>				
School Breakfast Program	05PU-2006	10.553	\$ 852	\$ 852
	05PU-2007	10.553	5,833	5,833
Total School Breakfast Program			6,685	6,685
National School Lunch Program	LLP4-2006	10.555	2,133	2,133
	LLP4-2007	10.555	14,490	14,490
Total National School Lunch Program			16,623	16,623
<i>Total Nutrition Cluster</i>			23,308	23,308
TOTAL U.S. DEPARTMENT OF AGRICULTURE			23,308	23,308
U.S. DEPARTMENT OF DEFENSE				
Jr. R.O.T.C.		12.XXX	79,090	95,046
TOTAL U.S. DEPARTMENT OF DEFENSE			79,090	95,046
U.S. DEPARTMENT OF TRANSPORTATION				
State and Community Highway Safety	2006SAN/1	20.600	37,672	23,959
	2007SAN/1		33,940	40,473
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			71,612	64,432
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through Ohio Department of Education:</i>				
Title I Grants to Local Educational Agencies (Regional Technical Assistance)	C1ST-2007	84.010	9,248	6,248
<u>Special Education Cluster:</u>				
Special Education_Grants to States (IDEA, Part B)				
Access 2006	6BSD-2006	84.027	3,549	3,332
School Psychology Interns		84.027		2,301
Total Special Education_Grants to States			3,549	5,633
Special Education_Preschool Grants (IDEA, Part B)				
Early Childhood Special Education	PGS1-2006	84.173	9,479	14,276
	PGS1-2007	84.173	113,810	110,794
Total Special Education_Preschool Grants			123,289	125,070
<i>Total Special Education Cluster</i>			126,838	130,703
Safe & Drug Free Schools and Communities_National Programs				
Emergency Response Crisis Management		84.184	195,445	194,505
Safe & Drug Free Schools and Communities_State Grants	DRS2-2006	84.186	12,154	32,875
Total Safe & Drug Free Schools and Communities_State Grants	DRS2-2007	84.186	86,984	69,413
			99,138	102,288
Twenty - First Century Community Learning Centers (Title IV, Part B)	T1S1-2006	84.287	81,228	47,216
	T1S1-2007	84.287	141,471	135,774
Total Twenty-First Century Community Grants			222,699	182,990
Improving Teacher Quality State Grants (Title II, Part A)	TRSA-2006	84.367	89,904	225
Total Improving Teacher Quality State Grants	TRSA-2007	84.367	100,839	122,409
			190,743	122,634
Learn and Serve America_School and Community Based Programs	SVS1-2006	94.004	(500)	
		94.004	12,254	2,632
Total Learn and Serve America Programs			11,754	2,632
TOTAL U.S. DEPARTMENT OF EDUCATION			855,865	742,000
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through Ohio Department of MRDD:</i>				
Medical Assistance Program (CAFS)_Title XIX		93.778	2,106	
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,106	
TOTAL FEDERAL AWARDS RECEIPTS AND EXPENDITURES			\$ 1,031,981	\$ 924,786

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2007**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – MATCHING REQUIREMENTS

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

NOTE C – CHILD NUTRITION CLUSTER

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

NOTE D – COMMUNITY ALTERNATIVE FUNDING SYSTEM (CAFS)

Monies received during the fiscal year relate to settlements for CAFS services provided during prior years.

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Mary Taylor, CPA

Auditor of State

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
Lucas County
2275 Collingwood Boulevard
Toledo, Ohio 43620-1148

To the Lucas County Educational Service Center:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lucas County Educational Service Center, Lucas County, (the Lucas ESC) as of and for the year ended June 30, 2007, which collectively comprise the Lucas ESC's basic financial statements and have issued our report thereon dated March 28, 2008. 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 Lucas ESC's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Lucas ESC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Lucas ESC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Lucas ESC's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Lucas ESC's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

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

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-001 and 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Lucas ESC's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiencies described above are also material weaknesses.

Compliance and Other Matters

As part of reasonably assuring whether the Lucas ESC'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*.

Lucas ESC's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit Lucas ESC's responses and, accordingly, we express no opinion on them.

We intend this report solely for the information and use of the audit committee, management, the Board, and federal awarding agencies and pass-through entities. We intend it for no one other than these specified parties.



Mary Taylor, CPA
Auditor of State

March 28, 2008



Mary Taylor, CPA

Auditor of State

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

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

To the Lucas County Educational Service Center:

Compliance

We have audited the compliance of Lucas County Educational Service Center, Lucas County (the Lucas ESC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended June 30, 2007. The summary of auditor's results section of the accompanying schedule of findings identifies the Lucas ESC's major federal programs. The Lucas ESC'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 the Lucas ESC's compliance based on our audit.

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

In our opinion, the Lucas County Educational Service Center, Lucas County 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, 2008.

Internal Control Over Compliance

The Lucas ESC's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lucas ESC's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lucas ESC's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Lucas ESC's ability to administer a federal program such that there is more than a remote likelihood that the Lucas ESC's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the Lucas ESC's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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



Mary Taylor, CPA
Auditor of State

March 28, 2008

**LUCAS COUNTY EDUCATIONAL SERVICE CENTER
LUCAS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2007**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weaknesses reported for major federal programs?	No
(d)(1)(iv)	Were there any other significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	Safe and Drug-Free Schools and Communities - State Grants (Title IV, Part A, Subpart 1 of the ESEA): CFDA #84.186 Special Education Cluster: CFDA # 84.027 and 84.173
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

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

FINDING NUMBER 2007-001

Material Weakness

Capital Assets

In order to maintain an accurate accounting of all assets of Lucas ESC, a capital asset accounting system should be utilized, periodic inventories should be performed, asset records should be maintained, and procedures should be developed and placed in operation to accurately determine depreciation/accumulated depreciation.

The following deficiencies were noted with Lucas ESC's capital assets:

- Lucas ESC has not developed a capital asset accounting system;
- Lucas ESC 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; and
- An appraisal was performed and includes all inventory information (including tag numbers, location, year of acquisition, and acquisition cost) as of June 30, 2004. However, this information has not been updated since the appraisal was performed.

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 Lucas ESC's assets will be misstated, we recommend:

- Lucas ESC develop and implement procedures to be performed throughout the year, for recording and updating capital assets. These procedures should include tagging all assets meeting Lucas ESC's capitalization criteria. Further, addition and disposal forms should be completed by Lucas ESC and approved by management when assets are acquired or disposed of. 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;
- Lucas ESC develop and implement procedures for performing periodic (annual) physical inventories. The physical inventories can be performed by submitting a list of all capital assets recorded for 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; any assets included on the listing should be added. Any significant variances should be investigated and documented; and
- Lucas ESC 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.

Official's Response

Lucas ESC completed a district-wide inventory effective October 2007. In addition, Lucas ESC is in the process of implementing and installing software for in-house update capability.

FINDING NUMBER 2007-002

Material Weakness

GAAP Conversion

The Lucas ESC should have procedures in place to prevent or detect material misstatements for the accurate presentation of the academy's financial statements and related disclosures. Errors were identified in calculating and posting journal entries to the financial statements during the GAAP conversion process, resulting in several audit adjustments to the major General, Community School Operations, and Auxiliary Services funds, totaling \$522,002, \$1,510,044, and \$1,548,303, respectively. The deficiencies resulting in these audit adjustments, consisted of, but were not limited to the following

- Misclassification of revenue account line items;
- Trial balance recording and posting errors, resulting in misstatement of revenue and expense account line items;
- Improper revenue recognition on entity wide and fund financial statements;
- Compensated absence computation errors resulting in misclassification of long-term liabilities; and
- Computation and expense accrual errors resulting in misstatement of liability account line items.

The failure to record accurate financial activity on the financial statements could result in material misstatements and inaccurate financial reporting.

We recommend due care be exercised in the calculation and preparation of the financial statements. Further, we recommend Lucas ESC implement review procedures to detect material financial statement errors.

Official's Response

Lucas ESC will address the GAAP Conversion errors with the Independent Public Accountant (IPA) contracted for providing GAAP services.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



Mary Taylor, CPA
Auditor of State

LUCAS COUNTY EDUCATIONAL SERVICE CENTER

LUCAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 24, 2008